

**ENKA İNŞAAT VE SANAYİ
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
YEAR ENDED
31 DECEMBER 2016 AND
INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Enka İnşaat ve Sanayi A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Enka İnşaat ve Sanayi A.Ş. ("the Company") and its subsidiaries and joint operations (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Revenue recognition on construction contracts

The Group's result for 2016 is significantly influenced by the results of large construction projects. Revenue arising from construction contracts represents 39% of the Group's total revenue as disclosed in Note 5. The profitability and the estimation of the outcome of construction contracts requires management judgement with significant effect, in particular with respect to estimating the cost to complete and the amounts of variation orders to be recognized.

Valuation of investment properties

As of 31 December 2016, the carrying value of investment properties amounted to USD 1,887 million and the fair value adjustment recorded in net profit for the current year in respect of investment properties was USD 46 million. Significant judgment is required by the management in determining the fair value of investment properties and for the purposes of our audit. Accordingly, the valuation of investment properties is considered to be a key audit matter due to the importance of the balance to the consolidated financial statements as a whole, combined with the judgment associated with determining the fair value.

The models used to determine the fair values are discounted cash flows method and the comparable market transactions. The Group uses independent valuers to determine the fair values for all of the properties held in these categories.

The inputs with the most significant impact on these valuations are disclosed in Note 13, and include discount rates and capitalization rates.

How the matter was addressed in the audit

Our audit procedures included an evaluation of the significant judgements made by the management, among others based on an examination of the associated project documentation and discussion on the status of projects under construction with finance and technical staff of the Group. We challenged management's assumptions regarding the project, local entity and Group management levels in order to evaluate the reasonableness and consistency of the valuation of the variation orders and claims within these projects and the final forecast project result. The projected costs are compared to actual costs to determine the estimations of the Group management related to the projects. We also tested the controls that the Group has put in place over its process to record contract costs and contract revenues and the calculation of the stage of completion.

We assessed the competence, capabilities and objectivity of independent valuers, and verified the qualifications of the valuers. In addition, we discussed the scope of their work with Group management and reviewed their terms of engagement to determine that there were no matters that affected their objectivity or imposed scope limitations upon them. We confirmed that the approaches they used are consistent with IFRS and industry norms.

We made use of our internal experts to evaluate the critical judgments used by independent valuers and the Group management.

Our internal specialists compared these inputs to market data and entity-specific historical information to confirm the appropriateness of these judgments and assumptions and held a meeting with the independent valuation firm.

Furthermore, we tested a selection of data inputs underpinning the investment property valuation, including rental income, tenancy schedules and square meter details, against appropriate supporting documentation, to assess the accuracy, reliability and completeness thereof and recalculated the valuations of selected investment properties.

We found that the models used for the various property categories were appropriate and the discount rates were comparable to the market.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



Özkan Yıldırım
Partner

İstanbul, 1 March 2017

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ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated.)

ASSETS	Notes	31 December 2016	31 December 2015
Current Assets		2,468,211	2,689,181
Cash and cash equivalents	6	1,000,020	949,188
Financial investments	7	684,133	775,137
Trade receivables	9	419,938	527,788
Other receivables			
Other receivables from related parties	10,33	-	19
Other receivables from third parties	10	1,537	446
Costs and estimated earnings in excess of billings on uncompleted contracts	12	3,060	79,844
Prepaid expenses	17	45,679	80,050
Inventories	11	264,804	233,599
Other current assets	21	48,356	42,258
		<u>2,467,527</u>	<u>2,688,329</u>
Assets held for sale and discontinued operations	30	684	852
Non-Current Assets		5,118,410	4,455,605
Financial investments	7	1,510,400	1,226,347
Trade receivables	9	28,933	8,780
Investment properties	13	1,886,911	1,558,724
Property, plant and equipment	14	1,602,005	1,580,278
Intangible assets			
Goodwill	16	55,168	55,168
Other intangible assets	15	24,462	20,240
Prepaid expenses	17	4,868	1,222
Deferred tax assets	31	1,400	49
Other non-current assets	21	4,263	4,797
TOTAL ASSETS		<u>7,586,621</u>	<u>7,144,786</u>

The accompanying notes form an integral part of these consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated.)

LIABILITIES	Notes	31 December 2016	31 December 2015
Current Liabilities		851,737	953,833
Short-term borrowings	8	24,279	6,076
Current portion of long-term borrowings	8	42,482	34,773
Trade payables	9	238,110	430,204
Payables to employees	20	21,873	13,551
Other payables			
Payables to related parties	10,33	90	860
Payables to third parties	10	13,133	18,575
Billings in excess of costs and estimated earnings on uncompleted contracts	12	241,027	160,900
Deferred income	17	98,681	140,774
Taxation on income	31	51,979	56,430
Provisions			
Provisions for employee benefits	20	18,342	14,683
Other provisions	18	58,465	48,253
Other current liabilities	21	43,276	28,754
Non-Current Liabilities		1,006,381	1,013,601
Long-term borrowings	8	217,249	104,290
Other payables	10	22,059	22,898
Deferred income	17	329,481	505,897
Provisions for employee benefits	20	16,290	16,952
Deferred tax liabilities	31	421,302	363,564
EQUITY		5,728,503	5,177,352
Equity Attributable to Equity Holders of the Parent		5,666,583	5,125,542
Share capital	22	2,445,227	2,378,041
Treasury shares	22	(12,032)	-
Revaluation surplus	22	182,004	148,222
Currency translation difference		(1,190,023)	(1,326,308)
Other reserves		(541)	(1,207)
Legal reserves and accumulated profit		4,241,948	3,926,794
Non-Controlling Interests		61,920	51,810
TOTAL LIABILITIES AND EQUITY		7,586,621	7,144,786

The accompanying notes form an integral part of these consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
CONTINUING OPERATIONS			
Revenue	5,23	3,506,113	4,554,755
Cost of revenues (-)	5,23	(2,713,548)	(3,779,566)
GROSS PROFIT		792,565	775,189
Administrative expenses (-)	5,24	(118,292)	(103,883)
Marketing, selling and distribution expenses (-)	5,24	(30,968)	(28,624)
Other operating income	5,26	25,409	28,038
Other operating expenses (-)	5,26	(40,796)	(49,851)
PROFIT FROM OPERATIONS		627,918	620,869
Income from investing activities	5,27	273,138	195,704
Expenses from investing activities (-)	5,27	(129,688)	(135,769)
OPERATING PROFIT BEFORE FINANCE EXPENSES		771,368	680,804
Financial income	5,28	27,312	31,516
Financial expenses (-)	5,29	(11,213)	(20,130)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		787,467	692,190
Current tax expense (-)	5,31	(143,588)	(127,551)
Deferred tax expense (-)	5,31	(44,449)	(29,331)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		599,430	535,308
NET PROFIT FOR THE YEAR		599,430	535,308
Attributable to:			
Non-controlling interests		10,775	5,769
Equity holders of the parent		588,655	529,539
		599,430	535,308
Earning per share from continuing operations			
- ordinary share certificate (full cent)	32	0.14	0.13
Weighted average number of shares (1 cent weighted average shares)		419,160,000,000	420,000,000,000

The accompanying notes form an integral part of these consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
NET PROFIT FOR THE YEAR		599,430	535,308
Other Comprehensive Income:			
<i>Items that will not be reclassified subsequently to profit or loss</i>		<i>37,965</i>	<i>(7,150)</i>
Gains / (losses) on revaluation of property, plant and equipment	22,31	33,826	(4,377)
Remeasurement of defined benefit plans	20,31	(483)	(2,005)
Changes in currency translation difference	22,31	836	(2,044)
Income tax relating items that will not be reclassified subsequently		3,786	1,276
Income tax relating to gains / (losses)			
on revaluation of property, plant and equipment	31	3,689	875
Income tax relating to remeasurement of defined benefit plans	31	97	401
<i>Items that may be reclassified subsequently to profit or loss</i>		<i>136,577</i>	<i>(339,631)</i>
Changes in currency translation difference	31	135,911	(338,424)
Cash flow hedges		666	(1,207)
Fair value gains / (losses) arising during the year	31	666	(1,207)
OTHER COMPREHENSIVE INCOME / (LOSS)		174,542	(346,781)
TOTAL COMPREHENSIVE INCOME		773,972	188,527
Attributable to:			
Non-controlling interests		12,842	777
Equity holders of the parent		761,130	187,750
		773,972	188,527

The accompanying notes form an integral part of these consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	Notes	Share capital	Treasury shares	Revaluation surplus	Currency translation difference	Other reserves	Legal reserves and accumulated profit	Total	Non-controlling interests	Total equity
Balance at 1 January 2015		2,230,412	-	161,888	(994,861)	1,986	3,757,719	5,157,144	57,614	5,214,758
Total other comprehensive income		-	-	(5,546)	(331,447)	(3,193)	(1,603)	(341,789)	(4,992)	(346,781)
Profit for the year		-	-	-	-	-	529,539	529,539	5,769	535,308
Total comprehensive income		-	-	(5,546)	(331,447)	(3,193)	527,936	187,750	777	188,527
Transfer of depreciation difference (net of deferred tax) of revaluation effect		-	-	(2,278)	-	-	2,278	-	-	-
Share capital increase	22	147,629	-	-	-	-	(147,629)	-	-	-
Dividends paid		-	-	-	-	-	(219,352)	(219,352)	(6,581)	(225,933)
Transfer of revaluation surplus of sold lands		-	-	(5,842)	-	-	5,842	-	-	-
Balance at 31 December 2015		2,378,041	-	148,222	(1,326,308)	(1,207)	3,926,794	5,125,542	51,810	5,177,352
Balance at 1 January 2016		2,378,041	-	148,222	(1,326,308)	(1,207)	3,926,794	5,125,542	51,810	5,177,352
Total other comprehensive income		-	-	35,910	136,285	666	(386)	172,475	2,067	174,542
Profit for the year		-	-	-	-	-	588,655	588,655	10,775	599,430
Total comprehensive income		-	-	35,910	136,285	666	588,269	761,130	12,842	773,972
Purchase of treasury shares	22	-	(12,032)	-	-	-	-	(12,032)	-	(12,032)
Transfer of depreciation difference (net of deferred tax) of revaluation effect		-	-	(2,128)	-	-	2,128	-	-	-
Share capital increase	22	67,186	-	-	-	-	(67,186)	-	-	-
Dividends paid		-	-	-	-	-	(208,057)	(208,057)	(2,732)	(210,789)
Balance at 31 December 2016		2,445,227	(12,032)	182,004	(1,190,023)	(541)	4,241,948	5,666,583	61,920	5,728,503

The accompanying notes form an integral part of these consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Cash flows from operating activities			
Profit for the year		599,430	535,308
Adjustments to reconcile net income			
to net cash used in operating activities:			
- Depreciation and amortization of non-current assets	5	103,620	99,989
- Provision for employment termination benefits		2,475	6,098
- Allowance for doubtful receivables	9,26	4,141	3,292
- Adjustments to deferred income from electricity sale		(163,993)	(132,577)
- (Income) / loss from fair value of forward transactions		(409)	2,372
- Interest expense	29	2,858	2,792
- Interest income		(98,852)	(79,988)
- Dividend income	27	(9,618)	(7,446)
- Provision for inventory impairment, net		276	263
- Gain on sale or disposal of property, plant and equipment, net	14	(3,402)	(3,392)
- Fair value increase in investment properties and lands		(39,055)	(11,199)
- Valuation of investment securities		(10,162)	64,086
- Interest accrual		308	255
- Tax expense	31	188,037	156,882
		<u>575,654</u>	<u>636,735</u>
Movements in working capital			
Decrease in trade and other receivables		83,824	195,846
Decrease cost and estimated earnings in excess of billings on uncompleted contracts		76,784	53,412
(Increase) / decrease in inventory		(31,481)	25,993
Decrease in other current assets and other non current assets		24,238	52,658
Decrease in trade and other payables		(192,094)	(108,911)
Increase / (decrease) in billings in excess of cost and estimated earnings on uncompleted contracts		80,127	(63,187)
Decrease in provision for liabilities and other liabilities		(23,777)	(214,591)
		<u>17,621</u>	<u>(58,780)</u>
Income taxes paid	31	(148,039)	(122,827)
Employee termination benefits paid		(1,830)	(1,869)
Net cash generated from operating activities		<u>443,406</u>	<u>453,259</u>
Cash flows from investing activities			
Change in financial investments		(182,886)	(483,555)
Proceeds on disposal or sale of property, plant and equipment	14	10,631	23,027
Purchases of property, plant and equipment, intangible assets and investment properties	5	(164,424)	(161,192)
Interest received		91,836	71,272
Dividend received		9,618	7,446
Net cash used in investing activities		<u>(235,225)</u>	<u>(543,002)</u>
Cash flows from financing activities			
Short-term borrowings, net		18,225	(370)
Addition to long-term borrowings		96,164	1,401
Repayments of long-term borrowings		(37,915)	(36,811)
Purchase of treasury shares		(12,032)	-
Interest paid		(3,413)	(3,380)
Interest received		6,709	8,461
Dividend paid to non-controlling interests		(2,732)	(6,570)
Dividend paid		(208,057)	(219,352)
Net cash used in financing activities		<u>(143,051)</u>	<u>(256,621)</u>
Translation reserve		(14,298)	(112,642)
Net increase / (decrease) in cash and cash equivalents		<u>50,832</u>	<u>(459,006)</u>
Cash and cash equivalents at beginning of the year	6	948,188	1,407,194
Cash and cash equivalents at end of the year	6	<u>999,020</u>	<u>948,188</u>

The accompanying notes form an integral part of these consolidated financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP

Enka İnşaat ve Sanayi Anonim Şirketi (“Enka İnşaat”) was established on 4 December 1967 and registered in İstanbul, Turkey, under the Turkish Commercial Code. The address of the headquarter and registered office of Enka İnşaat is Balmumcu, Zincirlikuyu Yolu No: 10, 34349 Enka Binası Beşiktaş, İstanbul, Turkey.

As of 28 June 2002, Enka İnşaat merged legally with its publicly traded shareholder company, Enka Holding Yatırım Anonim Şirketi (Enka Holding), which were under the common control of Tara Holding Anonim Şirketi and Tara and Gülçelik families. As of 31 December 2016, 12.13% of the shares of Enka İnşaat is traded publicly in İstanbul Stock Exchange (ISE).

As of 31 December 2016, the average numbers of white and blue-collar personnel are respectively 4,975 and 26,262 (31 December 2015 – 4,757 and 17,695).

For the purpose of the consolidated financial statements, Enka İnşaat, its consolidated subsidiaries and its joint operations are hereinafter referred to as “the Group”.

The Group operates in geographical areas below:

- i. Turkey:* engaged in diverse types of construction activities including construction of industrial and social buildings, motorways and construction and operation of natural gas fired electrical energy generation facilities.
- ii. Russian Federation, Georgia, Turkmenistan and Kazakhstan:* engaged in construction activities and also in investment and development of real estate properties and shopping malls in Moscow, Russia.
- iii. Engaged in construction activities in Gabon, Djibouti, Mauritania and Equatorial Guinea in Africa; Saudi Arabia, Sri Lanka, India, Oman, Iraq and Afganistan in Asia.*
- iv. Europe:* engaged in construction and trading activities in Romania, the Netherlands, Switzerland, Germany and Kosovo.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP (cont’d)

As of 31 December 2016, Enka İnşaat has the following subsidiaries whose business and country of incorporation are provided below:

Name of Subsidiary	Nature of business activities	Country of incorporation	Year of establishment
Enka Pazarlama İhracat İthalat Anonim Şirketi (Enka Pazarlama)	Engaged in marketing and after-sales service of construction machineries, trucks, industrial products and spare parts.	Turkey	1972
Çimtaş Çelik İmalat Montaj ve Tesisat Anonim Şirketi (Çimtaş)	Engaged in manufacturing of structural steel works, installation and establishing of the technical equipment.	Turkey	1973
Titaş Toprak İnşaat ve Taahhüt Anonim Şirketi (Titaş)	Engaged in all kinds of excavation activities, excavation backfilling works and quarrying-crushing operation of highway projects.	Turkey	1974
Kasktaş Kayar Kalıp Altyapı Sondaj Kazık ve Tecrit Anonim Şirketi (Kasktaş)	Engaged in pile dwelling work, any kind of base and superstructure construction, slip form and construction of drilling and ground surveys.	Turkey	1975
Entaş Nakliyat ve Turizm Anonim Şirketi (Entaş)	The firm operates in organization of domestic and international conventions and seminars and also engaged in tour reservations and ticket sales.	Turkey	1976
Enet Proje Araştırma ve Müşavirlik A.Ş. (Enet)	Performs architectural design services.	Turkey	1980
Enka Teknik Genel Mühendislik Bakım İşletme Sevki ve İdare Anonim Şirketi (Enka Teknik)	Operates in the business of material handling and storage systems, auxiliary facilities, water treatment and environmental engineering, infrastructure and construction, control systems and instrumentation engineering.	Turkey	1981
Entrade GmbH (Entrade)	Manages foreign investments of the Company.	Germany	1984
Limited Liability Company Enmar (Enmar)	Engaged in ready-mixed concrete production and various construction works.	Russia	1994
Airenka Hava Taşımacılığı A.Ş.(Air Enka)	Engaged in all kinds of air transportation.	Turkey	2001
Enka Holding B.V.	Manages foreign investments of the Company.	Netherlands	2001
Enka Mühendislik Hizmetleri A.Ş. (Enka Mühendislik)	Engaged in construction activities.	Turkey	2002
Adapazarı Elektrik Üretim Limited Şirketi (Adapazarı Elektrik) (*)	Performs production and selling of electricity.	Turkey	2004
İzmir Elektrik Üretim Limited Şirketi (İzmir Elektrik) (*)	Performs production and selling of electricity.	Turkey	2004
Enka Santral İşletme ve Bakım Hizmetleri Anonim Şirketi	Performs repair and maintenance of the power plants.	Turkey	2004
Gebze Elektrik Üretim Limited Şirketi (Gebze Elektrik) (*)	Performs production and selling of electricity.	Turkey	2004
Enka Limited Liability Company (Enka LLC)	Manages the Company’s construction, engineering and design jobs.	Ukraine	2006
Enka Enerji Üretim A.Ş.	Will perform production and sale of electricity.	Turkey	2006
Enka & Co LLC	Engaged in construction activities.	Oman	2010

(*) İzmir Elektrik, Adapazarı Elektrik and Gebze Elektrik here and after are also referred to as “the Power Companies”.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP (cont’d)

The construction contracts are undertaken by Enka İnşaat alone or together with its affiliated companies or, in partnerships with other contractors through joint operations. As of 31 December 2016, Enka İnşaat has the following joint operations:

Bechtel-Enka Joint Venture (Kazakhstan) – Senimdy Kurylys
Caddell- Enka Joint Venture (Caddell Europe, Africa, America, Asia)
Bechtel-Enka Joint Venture (Romania)
Bechtel-Enka Joint Venture (Albania)
Bechtel-Enka Joint Venture (Kosovo)
AECO Development Limited Liability Company (Oman)
Bechtel-Enka Joint Venture (Oman)
Bechtel-Enka Joint Venture (Georgia)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

Basis for preparation of the financial statements and significant accounting policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared on the historical cost convention, except for investment properties, buildings, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair values. The consolidated financial statements are presented in U.S. Dollars (USD) and all values are rounded to the nearest thousand (‘000) except when otherwise indicated.

The Group adopted all standards, which were mandatory as of 31 December 2016. The consolidated financial statements of Enka İnşaat were authorized for issue by the management on 1 March 2017. The General Assembly and certain regulatory bodies have the power to amend the financial statements after issue.

Enka İnşaat and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards promulgated by the Turkish Capital Market Board (CMB), (for publicly traded companies) and Turkish Commercial Code and Tax Legislation and the Uniform Chart of Accounts issued by the Ministry of Finance. The foreign subsidiaries maintain their books of accounts in accordance with the laws and regulations in force in the countries where they are registered. The consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The Group also reported separately for the consolidated financial statements for the same period prepared in accordance with accounting principles promulgated by CMB.

There are no differences between the consolidated financial statements prepared in accordance with the accounting policies promulgated by CMB and consolidated IFRS financial statements except for the use of TL and USD as the presentation currency, respectively.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.1 Basis of presentation (cont’d)

Functional and presentation currency

As significant amount of construction, energy and real estate operations of Enka İnşaat and its consolidated subsidiaries and its joint operations which form main part of the operations of the Group are carried out in U.S. Dollar or indexed to U.S. Dollar, this currency has been determined as the functional and the presentation currency of the Group in line with IAS 21 - The Effects of Changes in Foreign Exchange Rates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies (i.e. any currency other than the functional currency) are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of the subsidiaries whose functional currency is other than U.S. Dollars are translated into U.S. Dollars at the rate of exchange ruling at the balance sheet date and their consolidated statement of profit or loss are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity as currency translation difference.

Within Turkey, official exchange rates of the Turkish Lira (TL) are determined by the Central Bank of Turkey (CBT) and are generally considered to be a reasonable approximation of market rates. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (CBRF), which is also a reasonable approximation of market rates.

The year-end and average rates for 2016 and 2015 for one U.S. Dollar can be summarized as below:

	2016	2015
U.S. Dollars/TL – as of balance sheet date	3.5192	2.9076
U.S. Dollars/TL – yearly average	3.0181	2.7190
U.S. Dollars/RUB – as of balance sheet date	60.6569	72.8827
U.S. Dollars/RUB – yearly average	67.0349	60.9579

Inflation accounting

Until 31 December 2005, the financial statements of the subsidiaries, functional currency of which was TL, were restated for the changes in the general purchasing power of TL based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). Since the objective conditions for the restatement in hyperinflationary economies were no longer applicable at that time, Turkey came off hyperinflationary status effective from 1 January 2006. After the Turkish economy ceased to be hyperinflationary, such subsidiaries no longer restate their financial statements in accordance with IAS 29, and use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date these subsidiaries ceased restating their financial statements. Therefore, the non-monetary assets and liabilities and components of shareholders’ equity of such subsidiaries including share capital reported in the balance sheet as of 31 December 2016 and 2015 are derived by indexing the additions occurred until 31 December 2005 and carrying the additions after this date with their nominal amounts.

Comparative information and reclassification of prior year consolidated financial statements

The Group prepares comparative consolidated financial statements, to enable readers to determine financial position and performance trends. For the purposes of effective comparison, comparative consolidated financial statements can be reclassified when deemed necessary by the Group, where descriptions on significant differences are disclosed. In the current year, there is no such reclassification.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.1 Basis of presentation (cont’d)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company, its joint operations and its subsidiaries as at 31 December each year. The financial statements of the joint operations and the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All significant intra-group transactions and balances between Enka İnşaat and its consolidated subsidiaries and joint operations are eliminated.

Non-controlling interests represent the portion of consolidated statement of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of profit or loss and within equity in the consolidated balance sheet, separately from parent shareholders’ equity.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.1 Basis of presentation (cont’d)

Basis of consolidation (cont’d)

The subsidiaries included in consolidation and their shareholding percentages at 31 December 2016 and 2015 are as follows:

Company name	Segment	Functional Currency	Direct / Indirect ownership	
			31 December 2016	31 December 2015
İzmir Elektrik	Energy	USD	100.00%	100.00%
Adapazarı Elektrik	Energy	USD	100.00%	100.00%
Gebze Elektrik	Energy	USD	100.00%	100.00%
Enka TC LLC	Trade and manufacturing	RUB	100.00%	100.00%
Mosenka	Rental	RUB	100.00%	100.00%
MKH	Rental	RUB	100.00%	100.00%
Enka Santral Hizmetleri A.Ş.	Energy	USD	100.00%	100.00%
Enka Enerji Üretim A.Ş.	Energy	USD	100.00%	100.00%
Enka Holding B.V.	Construction	EUR	100.00%	100.00%
Enka Holding Investment S.A.	Construction	USD	100.00%	100.00%
Enka Power Systems B.V.	Construction	EUR	100.00%	100.00%
Enka Construction & Development B.V.	Construction	EUR	100.00%	100.00%
Far East Development B.V.	Construction	EUR	100.00%	100.00%
Middle East Construction B.V.	Construction	EUR	100.00%	100.00%
Enmar	Construction	USD	100.00%	100.00%
Entrade	Construction	EUR	100.00%	100.00%
Capital City Investment B.V.	Construction	EUR	100.00%	100.00%
City Center Investment B.V.	Rental	USD	100.00%	100.00%
Enka LLC	Construction	USD	100.00%	100.00%
Retmos Investment Ltd.	Construction	USD	100.00%	100.00%
Emos LLC	Trade and manufacturing	RUB	100.00%	100.00%
Enmar Construction B.V. (Former name as Bmos B.V.)	Trade and manufacturing	EUR	100.00%	100.00%
Cmos B.V.	Trade and manufacturing	EUR	100.00%	100.00%
OOO Victoria	Construction	USD	100.00%	100.00%
Enka & Co LLC	Construction	USD	100.00%	100.00%
Enka Müteahhitlik	Construction	TL	100.00%	100.00%
Edco Investment B.V.	Rental	EUR	100.00%	100.00%
Enru Development B.V.	Rental	EUR	100.00%	100.00%
Enkamos Region B.V. (Former name as Pavmos B.V.)	Construction	EUR	100.00%	100.00%
Airenka	Trade and manufacturing	USD	100.00%	100.00%
Poyraz Shipping B.V.	Construction	USD	100.00%	100.00%
Bogazici Shipping B.V.	Construction	USD	100.00%	100.00%
Doga Shipping B.V.	Construction	USD	100.00%	100.00%
Imbat Shipping B.V.	Construction	USD	100.00%	100.00%
TNY Shipping B.V.	Construction	USD	100.00%	100.00%
Alacante Shipping B.V.	Construction	USD	100.00%	100.00%
BRK Overseas Shipping B.V.	Construction	USD	100.00%	100.00%
MML Merchant Shipping B.V.	Construction	USD	100.00%	100.00%
Esta Construction B.V.	Construction	USD	100.00%	100.00%
Enka UK Construction Ltd.	Construction	USD	100.00%	-

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.1 Basis of presentation (cont’d)

Basis of consolidation (cont’d)

Company name (continuing)	Segment	Functional Currency	Direct / Indirect ownership	
			31 December 2016	31 December 2015
Enet	Construction	TL	100.00%	100.00%
Enka Pazarlama	Trade and manufacturing	TL	100.00%	99.99%
Enka Finansal Kiralama A.Ş.	Trade and manufacturing	TL	100.00%	99.99%
Metra Akdeniz Dış Ticaret A.Ş.	Trade and manufacturing	TL	99.93%	99.93%
Entaş	Trade and manufacturing	TL	99.98%	99.98%
Kasktaş	Construction	USD	99.90%	99.90%
Burkas Ltd. Şti.	Construction	USD	99.90%	99.90%
Kasktaş Arabia Ltd.	Construction	USD	99.90%	99.90%
Titaş	Construction	USD	99.50%	99.50%
Çimtaş Gemi İnşa Sanayi ve Ticaret A.Ş.	Construction	USD	97.88%	97.88%
Çimtaş Hassas İşleme Sanayi ve Ticaret Ltd. Şti. (Former name Çimtaş Borulama)	Construction	USD	97.35%	97.35%
Çimtaş Çelik	Construction	USD	97.35%	97.35%
Cimtas Mechanical Contracting B.V.	Construction	USD	97.35%	97.35%
Cimtas (Ningbo) Steel Processing Company Ltd.	Construction	USD	97.35%	97.35%
Cimtas Investment B.V.	Construction	EUR	97.35%	97.35%
Gemlik Deniz Taşımacılık Ltd.Şti.	Construction	USD	97.35%	97.35%
Enka Teknik	Construction	USD	80.00%	77.50%
OOO R-Avtam	Rental	USD	60.00%	60.00%
Cimtas Boru İmalatları ve Ticaret Ltd. Şti.	Construction	EUR	50.00%	50.00%
Cimtas Buildings Systems Ltd. (CBSL)	Construction	USD	-	97.35%
Rulen B.V.	Construction	EUR	-	100.00%

The Group has interests in joint operations which are jointly controlled entities. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group recognizes its interest in the joint operations using proportionate consolidation. The breakdown of the controlling interests of the joint operations as of 31 December 2016 and 2015 is as follows:

	Functional Currency	31 December	
		2016	2015
Bechtel-Enka Joint Venture (Kazakhstan) – Senimdy Kurylys	USD	50.00%	50.00%
Caddell Construction Company Inc. (Caddell Europe, Africa, America, Asia)	USD	50.00%	50.00%
Bechtel-Enka Joint Venture (Romania)	EUR	50.00%	50.00%
Bechtel-Enka Joint Venture (Albania)	EUR	50.00%	50.00%
Bechtel-Enka Joint Venture (Kosovo)	EUR	50.00%	50.00%
AECO Development Limited Liability Company (Oman)	USD	50.00%	50.00%
Bechtel-Enka Joint Venture (Oman)	USD	50.00%	50.00%
Bechtel-Enka Joint Venture (Georgia)	USD	50.00%	50.00%

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.2 Changes in the accounting policies

Significant changes in accounting policies are applied retrospectively and prior year consolidated financial statements are restated when necessary. There is no change in accounting policies of the Group in the current year.

2.3 Changes and Errors in Accounting Estimates

Changes in accounting policies or accounting errors are applied retrospectively and the consolidated financial statements of the previous periods are restated. If estimated changes in accounting policies are for only one period, changes are applied on the current year but if the estimated changes effect the following periods, changes are applied both on the current and following years prospectively. There is no material change in accounting estimates of the Group in the current year.

When a significant accounting error is identified, it is corrected retrospectively and the prior year consolidated financial statements are restated. The Group did not detect any significant accounting error in the current year.

2.4 Adoption of New and Revised International Financial Reporting Standards

The following amendments to IASs have been applied in the current year and have affected the amounts reported in these consolidated financial statements.

a) Amendments to IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements

IFRS 9 Financial Instruments: Classification and Measurement

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39 Financial Instruments: Recognition and Measurement. The standard requires an entity to classify its financial assets on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or a fair value. The new standard is mandatory for annual periods beginning on or after 1 January 2017, earlier adoption is permitted. The Group has adopted IFRS 9 and the related consequential amendments since 31 December 2010.

b) New and revised IFRSs applied with no material effect on the consolidated financial statements

IFRS 14	<i>Regulatory Deferral Accounts</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint Operations</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 19, IAS 34</i> ¹
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 *Regulatory Deferral Accounts* permits an entity, which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for ‘regulatory deferral account balances’ in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Adoption of New and Revised International Financial Reporting Standards (cont’d)

b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont’d)

Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

This amendment include ‘bearer plants’ within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5: Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of ‘elsewhere in the interim report’ and require a cross-reference.

Amendments to IAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Adoption of New and Revised International Financial Reporting Standards (cont’d)

b) New and revised IFRSs applied with no material effect on the consolidated financial statements (cont’d)

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent’s investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

c) New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 4	<i>Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’</i>
	<i>Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1</i> ² , <i>IFRS 12</i> ¹ , <i>IAS 28</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Adoption of New and Revised International Financial Reporting Standards (cont’d)

c) New and revised IFRSs in issue but not yet effective (cont’d)

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 *Disclosure Initiative*

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

Amendments to IFRS 15 *Revenue from Contracts with Customers*

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 *Leases*

This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 “Leases” and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Amendments to IFRS 4 *Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’*

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Adoption of New and Revised International Financial Reporting Standards (cont’d)

c) New and revised IFRSs in issue but not yet effective (cont’d)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 *Transfers of Investment Property*

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is reduced for estimated or realized customer returns, discount commissions, rebates and taxes related to sales. The following specific recognition criteria must also be met before revenue is recognized:

Construction contract activities

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Revenue arising from cost plus fee contracts is recognized on the basis of costs incurred plus a percentage of the contract fee earned during the year.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative expenses are charged to the consolidated statement of profit or loss as incurred. Provisions for estimated losses on uncompleted contracts are made in full, in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized.

Energy activities

The Power Companies have signed an “Electric Sales Agreement” (ESA) with Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ) for the establishment, management and sale of electricity that will be produced for a period of 20 years in accordance with the Build-Own-Operate Law numbered 4283 and Build-Own-Operate regulation. As the period includes project development and construction phases, the contract dates of power plants are 16 years after the beginning of the operation. The sales price and quantity in terms of Kwh during the 16 years period are determined in the ESA. Average energy sales price is determined by dividing yearly sales revenues calculated over yearly sales amounts and unit prices by the 16 year-sales quantities. At the end of each year, the average price is recalculated over the realized amounts. Therefore, revenues from the sale of electricity under long-term contracts are recognized on the average charge per Kwh over the life of the contract. Both the ‘investment’ and the ‘fuel cost’ item revenues in the scope of the contract are levelised accordingly. Revenues in excess of the average are recorded as deferred revenue in the consolidated balance sheet and are recognized over the life of the project.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is reduced for estimated or realized customer returns, discount commissions, rebates and taxes related to sales.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Revenue (cont’d)

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases. Rental income collected in advance is treated as deferred income and is amortised on a monthly basis during the lease period.

Rendering of services

Revenue is recognized by reference to the stage of completion.

Interest income

Interest income and expenses are recognized in the consolidated statement of profit or loss on an accrual basis taking into account the effective yield on the asset. When loans provided by the Group are considered doubtful by the management of the Group, the interest accrual is not recognized in the consolidated statement of profit or loss.

Dividends

Revenue is recognized when the Group’s right to receive the payment is established.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

Raw materials, spare parts, merchandise and construction materials - purchase cost on moving weighted average basis.

Goods for resale - purchase cost on moving weighted average basis.

Finished goods - cost of direct materials and labor and a proportion of manufacturing overheads based on moving weighted average basis.

The Group also provides an allowance for the slow moving and obsolete items.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

With the exception of land and buildings, items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Land is not depreciated. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Land and buildings are carried at revalued amounts. Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Property, plant and equipment (cont’d)

Repairs and maintenance are charged to the consolidated statements of profit or loss during the financial period in which they are incurred. The costs of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Depreciation is provided on all property, plant and equipment using the straight-line method at rates which approximate estimated useful lives of the related assets as follows:

	Useful life
Land improvements	5-50 years
Buildings	10-50 years
Power plant equipment	35 years
Pipelines	16 years
Electrical interconnection lines	16 years
Machinery and equipment	4-10 years
Motor vehicles	3-10 years
Furniture and fixtures	5-10 years
Barracks, scaffolding and formworks	5 years
Aircrafts	10-15 years
Others	5-10 years

Power plant equipment is recorded at its original cost of construction. Significant additions or improvements are capitalized when they extend the life, improve the efficiency or increase the earnings capacity of the asset. Expenditures for maintenance, repairs and minor renewals to maintain facilities in operating condition are expensed as incurred.

The asset’s residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets

Intangible assets mainly includes software rights, they are initially recognized at acquisition cost that are amortized over 3 to 10 years on straight-line basis.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Investment properties

Land and buildings that are held in the production of supply of goods or services or for administrative purposes or for long term rental yields or for capital appreciation or both rather than for the sale in the ordinary course of business are classified as “investment property”. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of profit or loss in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Investment property also includes long-term leasehold land held under an operating lease, which is accounted for as a finance lease in accordance with IAS 40 “Investment Property” and IAS 17 “Leases”. Each lease payment on the long-term leasehold land is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current lease liability on leasehold land. The interest element of the finance cost is charged to consolidated statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Business combinations

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated statement of profit or loss as a bargain purchase gain.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Business combinations (cont’d)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Non-current assets held for sale

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell, and depreciation on such assets are ceased.

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. The Group measured assets and liabilities related to the disposal group at the lower of their previous carrying amount and fair value less costs to sell (Note 30).

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

According to IFRS 9 as from 1 January 2010, the group classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortised cost. This classification depends on whether the financial asset is a debt or equity investment.

(a) Financial assets at amortised cost

A debt investment is classified as ‘amortised cost’ only if both of the following criteria are met: the objective of the group’s business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

(b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as ‘fair value through profit or loss’. The Group has classified their financial assets as financial assets to be measured at fair value.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

At initial recognition, the group measures a financial asset at its fair value. A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of profit or loss within income / (expenses) from investing activities in the period in which they arise. The Group is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

Impairment of financial assets

Financial assets at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Financial instruments (cont’d)

Impairment of financial assets (cont’d)

Financial assets at amortised cost (cont’d)

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - i. adverse changes in the payment status of borrowers in the portfolio; and
 - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The Group’s cash and cash equivalents are classified under the category of ‘Loans and Receivables’.

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Financial instruments (cont’d)

Financial liabilities (cont’d)

Financial liabilities are classified as either financial liabilities at fair value through profit and loss or other financial liabilities.

a) Financial liabilities at fair value through profit and loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

b) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency purchase and sale contracts and also interest rate cap transactions, to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of profit or loss. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate cap contracts is determined based on quoted market prices in active markets.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Financial instruments (cont’d)

Derivative financial instruments and hedging (cont’d)

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability and could affect consolidated statement of profit or loss. The Power Companies have borrowings with variable interest rates and the Group uses interest rate caps to hedge the exposure to variability in cash flows due to the change in interest rates. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in consolidated statement of profit or loss.

Amounts taken to equity are transferred to the consolidated statement of profit or loss when the hedged transaction affects consolidated statement of profit or loss.

Accounting at the date of transaction

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Effects of Changes in Foreign Exchange Rates

Transactions in currencies other than functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency indexed monetary assets and liabilities are recorded at the rates of exchange prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in the consolidated statement of profit or loss in the period in which they arise.

Earnings per share

Basic earnings per share (EPS) disclosed in the consolidated statement of profit or loss are determined by dividing net profit by the weighted average number of shares that have been outstanding during the related year concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (Bonus Shares) to existing shareholders without a consideration for amounts resolved to be transferred to share capital from retained earnings. For the purpose of the EPS calculation, such bonus share distributions are regarded as stock dividends. If the number of ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic EPS for all periods presented is adjusted retrospectively. If these changes occur after the balance sheet date but before the financial statements are authorized for issue, the EPS calculations for those and any prior period financial statements presented is based on the new number of shares.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Provisions, contingent liabilities, contingent assets

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities and assets

If contingent liabilities does not carry a high probability of resource allocation (cash outflow), they are not recognized in the consolidated financial statements but disclosed in the footnotes. However, contingent assets are not recognized in consolidated financial statements but disclosed in the footnotes when an inflow of economic benefits is probable.

Leases - The Group as lessee

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against consolidated statement of profit or loss. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonably certainty that the Group will obtain ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases, except long-term leasehold land classified as investment property. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

Leases - The Group as lessor

Operating lease

The Group has entered into commercial and residential property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases. Lease income from operating leases is recognized in consolidated statement of profit or loss on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Initial direct costs incurred by the Group in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

Related parties

Related parties are individuals or entities that are related to the entity that is preparing its financial statements (reporting entity).

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Related parties (cont’d)

a) An individual or a close family member is considered related party of the reporting entity when the following criteria are met: If a certain individual,

- i) Has control or joint control over the reporting entity,
- ii) Has significant influence over the reporting entity,
- iii) Is a key management personnel of the reporting entity or a parent company of the reporting entity.

b) An entity is considered related party of the reporting entity when the following criteria are met:

- i) If the entity and the reporting entity is within the same group (meaning every parent company, subsidiary and other subsidiaries are considered related parties of others.
- ii) If the reporting entity is a subsidiary or a joint venture of another entity (or of another entity that the entity is within the same group).
- iii) If both of the entities are a joint venture of a third party.
- iv) If one of the entities are a joint venture of a third party while the other entity is a subsidiary of this third party.
- v) If entity has plans of post employment benefits for employees of reporting entity or a related party of a reporting entity. If the reporting entity has its own plans, sponsor employers are also considered as related parties.
- vi) If the entity is controlled or jointly controlled by an individual defined in the article (a).
- vii) If an individual defined in the clause (i) of article (a) has significant influence over the reporting entity or is a key management personnel of this certain entity (or a parent company of the entity)

Related party transaction is the transfer of resources, services or liabilities regardless of whether a price is charged or not.

Income tax

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management’s judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of profit or loss.

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

Employee termination benefits

The Group has both defined benefit and defined contribution plans as described below:

Defined benefit plans

In accordance with existing social legislation in Turkey, the Company and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed one year of service and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. All actuarial gains and losses are recognized in the consolidated statement of other comprehensive income.

Personnel working in branches operating in foreign countries and joint-operations do not have any employee termination benefit as there is no legal obligation in these countries.

Defined contribution plans

The Company and its subsidiaries in Turkey pay contributions to publicly administered Social Security Fund on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Foreign subsidiaries and joint operations contribute to the related government body for the pension scheme of its employees in the country they are domiciled. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Statement of cash flows

Cash flows are classified according to operating, investment and finance activities in the consolidated statement of cash flows.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, excluding short term deposits with an original maturity of more than three months and deposits blocked in bank accounts as collateral.

Events after the reporting period

Events after the reporting period, also known as ‘subsequent events’ include any favorable or unfavorable event that took place between the balance sheet date and the publication date of the balance sheet, despite any possible event that might arise after the publicization of any information regarding profits or other financial figures.

The Group adjusts its consolidated financial statements if such adjusting subsequent events arise.

2.6 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that are reflected in the measurement of income and expense in the consolidated statement of profit or loss and in the carrying value of assets and liabilities in the consolidated balance sheet, and in the disclosure of information in the notes to the consolidated financial statements. Managements do exercise judgment and make use of information available at the date of the preparation of the consolidated financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates.

The key assumptions concerning the future and other key resources of estimation at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the consolidated financial statements are as follows:

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2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.6 Significant accounting judgements, estimates and assumptions (cont’d)

- a) Determination of total estimated project costs, profitability and calculation of loss accruals under the scope of IAS 11 “Construction Contracts” (Note 12).
- b) Market valuations of investment properties under the scope of IAS 40 “Investment Property” and land and buildings under the scope of IAS 16 “Property, Plant and Equipment” (Note 13 and 14).
- c) Estimation of impairment losses on financial assets and trade receivables (Note 7 and 9).
- d) Significant management judgement is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 31).
- e) The Group management has made significant assumptions for determining the economic lives of tangible and intangible assets with the guidance of experienced technical staff (Note 14, 15).
- f) In accordance with the determined accounting policies, the Group reviews carrying amount of goodwill for impairment annually, or more frequently in cases where the circumstances indicate impairment. As of 31 December 2016, the Group tested impairment of carrying amount of goodwill by comparing the recoverable amount which is determined by value in use calculations. These calculations are based on projected before-tax cash flows based on financial budgets/forecasts approved by the Board of Directors. Expected growth rates are used to discount projected cash flows for periods greater than five years. Operating market growth rates, per capita gross domestic product and pricing information such as indices, have been acquired from outside sources. Estimations related to parameters such as selling prices, working capital requirements and fixed assets investments are based on Group’s predictions and previous period realizations.
- g) In accordance with the accounting policies referred to in Note 2.5, provisions are based on the assumption that the Group has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount to be paid can be reliably estimated. The Group is subject to various legal processes, requests and regulatory negotiations whose results are uncertain. The Group assesses the likelihood of adverse consequences as well as other factors, and the possibility of reasonably estimating losses. Unforeseeable events and changes in these factors may require an increase or decrease in the provisions that the Group accounts for (whether it is considered unlikely or has not recorded a provision due to inability of a reliable estimation).

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3. DIVIDENDS

Based on the Group’s Ordinary General Assembly held on 29 March 2016; regarding to the distribution of the year 2015 profit, it has been resolved to distribute dividend to its shareholders for each TL 1 (full TL) nominal valued share, 0.08 full TL gross / 0.071 full TL net in total TL 600,000 (2015 - TL 588,000); further it has been resolved to distribute TL 21,998 (2015 - TL 25,887) as cash dividend to founder shares. Net in total TL 280,000 from TL 600,000 has been distributed as an advance dividend on 11 November 2015, and the remaining amount net in total TL 320,000 is distributed on 20 April 2016.

In 2016 and 2015, the Group distributed dividends as detailed below:

	2016		2015	
	Dividend	Dividends per share	Dividend	Dividends per share
Ordinary share owners (1 Full TL nominal value)	320,000 TL	0.08 Full TL	300,000 TL	0.08 Full TL
Founder share owners	21,998 TL	21.99 TL	25,887 TL	25.89 TL
Ordinary share owners (1 Full TL nominal value) (*)	140,000 TL	0.03 Full TL	280,000 TL	0.07 Full TL
Ordinary share owners (1 Full TL nominal value) (**)	140,000 TL	0.03 Full TL	-	-
	<u>621,998 TL</u>		<u>605,887 TL</u>	

(*) Based on the power vested in the Board of Directors of Enka İnfaat by the General Assembly in its ordinary Meeting held on 29 March 2016; regarding to the distribution of the period between 1 January – 30 June 2016 profit, it is resolved to distribute, as of the date of 28 September 2016 a total TL 140,000 from the amount that remains after deduction of the reserves as required, pursuant to the provisions of the Turkish Code of Commerce and the Articles of Association, dividend advances at a rate of 3.33% gross and 2.83% net per share.

(**) Based on the power vested in the Board of Directors of Enka İnfaat by the General Assembly in its ordinary Meeting held on 29 March 2016; regarding to the distribution of the period between 1 January – 30 September 2016 profit, it is resolved to distribute, as of the date of 14 December 2016 a total TL 140,000 from the amount that remains after deduction of the reserves as required, pursuant to the provisions of the Turkish Code of Commerce and the Articles of Association, dividend advances at a rate of 3.33% gross and 2.83% net per share.

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4. INTEREST IN JOINT OPERATIONS

The Group's share in the assets and liabilities and the profit/loss of the of the joint operations using the proportionate consolidation method on a line by line basis is as follows:

	31 December 2016	31 December 2015
ASSETS		
Current Assets		
Cash and cash equivalents	137,463	122,458
Trade receivables	98,690	67,316
Other receivables	40	28
Inventories	8,203	11,349
Other current assets	13,297	7,644
Group's share in current assets of joint operations	257,693	208,795
Non-Current Assets		
Cost	67,037	61,829
Accumulated depreciation	(40,250)	(34,588)
Group's share in joint operations in property, plant and equipment	26,787	27,241
Other non-current assets	3,904	1,138
Group's share in non-current assets of joint operations	3,904	1,138
LIABILITIES		
Current Liabilities		
Trade payables	24,781	26,262
Billings in excess of costs and estimated earnings on uncompleted contracts	160,386	125,922
Provisions	6,411	7,040
Provisions for employee benefits	2,545	3,260
Other current liabilities	12,070	6,366
Group's share in current liabilities of joint operations	206,193	168,850
Non-Current Liabilities		
Other non-current liabilities	15,000	27,500
Group's share in non-current liabilities of joint operations	15,000	27,500

The Group's share in the consolidated statement of profit or loss of the joint operations using the proportionate consolidation method on a line by line basis is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Revenue	592,361	342,829
Cost of revenue	(461,601)	(277,601)
General administrative expenses	-	(19)
Other operating income	15	941
Other operating expenses	-	(48)
Financial income	-	1,893
Financial expenses	(2,259)	(124)
Taxation charge	(8,370)	(6,857)
Net profit	120,146	61,014

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5. SEGMENTAL INFORMATION

The Group’s operating businesses are organized and managed separately according to the nature of services and products provided and has four reportable segments as follows: construction, rental, energy and trading and manufacturing.

a) Business segments:

	1 January - 31 December 2016					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	1,382,388	318,263	243,691	1,561,771	-	3,506,113
Inter-segment revenues	70,304	730	2,354	20,375	(93,763)	-
Cost of revenues (-)	(1,158,894)	(79,789)	(205,659)	(1,269,206)	-	(2,713,548)
Inter-segment cost of revenues (-)	(70,539)	-	(2,354)	(20,375)	93,268	-
Gross profit	223,259	239,204	38,032	292,565	(495)	792,565
Administrative expenses (-)	(81,105)	(14,140)	(14,384)	(9,393)	730	(118,292)
Marketing, selling and distribution expenses (-)	(15,499)	(5,035)	(10,434)	-	-	(30,968)
Other operating income	14,851	6,123	2,737	1,698	-	25,409
Other operating expenses (-)	(26,212)	(6,112)	(1,626)	(6,846)	-	(40,796)
Profit from operations	115,294	220,040	14,325	278,024	235	627,918
Investment income	226,768	46,257	13	100	-	273,138
Investment expenses (-)	(129,688)	-	-	-	-	(129,688)
Profit from operations Before financial income/(expenses)	212,374	266,297	14,338	278,124	235	771,368
Financial income	13,360	7,186	4,179	6,791	(4,204)	27,312
Financial expenses (-)	(4,593)	(6,117)	(3,086)	(1,579)	4,162	(11,213)
Profit before tax	221,141	267,366	15,431	283,336	193	787,467
Current tax expense (-)	(67,090)	(34,022)	(7,780)	(34,696)	-	(143,588)
Deferred tax expense (-)	838	(14,588)	369	(31,068)	-	(44,449)
Profit for the year from continuing operations	154,889	218,756	8,020	217,572	193	599,430

	31 December 2016				
	Construction contracts	Rental	Trade	Energy	Consolidated
Segment assets	3,807,142	1,960,577	211,590	1,607,103	7,586,412
Unallocated assets					209
Total assets	3,807,142	1,960,577	211,590	1,607,103	7,586,621
Segment liabilities	728,079	400,904	88,524	640,520	1,858,027
Unallocated liabilities					91
Total liabilities	728,079	400,904	88,524	640,520	1,858,118

	1 January - 31 December 2016				
	Construction contracts	Rental	Trade	Energy	Consolidated
Other segment information					
<u>Capital expenditures</u>					
Property, plant and equipment & investment property	67,638	57,390	86	32,919	158,033
Intangible assets	6,122	59	12	198	6,391
Total capital expenditures	73,760	57,449	98	33,117	164,424
Depreciation expenses	45,383	3,100	738	52,591	101,812
Amortization expenses	1,426	113	99	170	1,808

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5. SEGMENTAL INFORMATION (cont’d)

a) Business segments (cont’d)

	1 January - 31 December 2015					Consolidated
	Construction contracts	Rental	Trade	Energy	Eliminations	
Revenues	1,415,112	381,552	266,844	2,491,247	-	4,554,755
Inter-segment revenues	76,775	-	6,535	20,398	(103,708)	-
Cost of revenues (-)	(1,219,136)	(103,168)	(217,556)	(2,239,706)	-	(3,779,566)
Inter-segment cost of revenues (-)	(79,184)	-	(6,535)	(20,398)	106,117	-
Gross profit	193,567	278,384	49,288	251,541	2,409	775,189
Administrative expenses (-)	(68,577)	(11,698)	(13,815)	(9,793)	-	(103,883)
Marketing, selling and distribution expenses (-)	(12,693)	(4,935)	(10,919)	(77)	-	(28,624)
Other operating income	17,399	2,445	3,972	4,222	-	28,038
Other operating expenses (-)	(45,554)	(956)	(3,302)	(39)	-	(49,851)
Profit from operations	84,142	263,240	25,224	245,854	2,409	620,869
Investment income	182,328	11,220	2,065	91	-	195,704
Investment expenses (-)	(135,638)	(131)	-	-	-	(135,769)
Profit from operations Before financial income/(expenses)	130,832	274,329	27,289	245,945	2,409	680,804
Financial income	17,571	5,250	6,581	7,151	(5,037)	31,516
Financial expenses (-)	(12,366)	(8,216)	(3,066)	(1,485)	5,003	(20,130)
Profit before tax	136,037	271,363	30,804	251,611	2,375	692,190
Current tax expense (-)	(40,193)	(38,720)	(8,097)	(40,541)	-	(127,551)
Deferred tax expense (-)	2,230	(8,616)	(362)	(22,583)	-	(29,331)
Profit for the year from continuing operations	98,074	224,027	22,345	188,487	2,375	535,308

	31 December 2015				
	Construction contracts	Rental	Trade	Energy	Consolidated
Segment assets	3,506,513	1,650,568	208,182	1,779,257	7,144,520
Unallocated assets					266
Total assets	3,506,513	1,650,568	208,182	1,779,257	7,144,786
Segment liabilities	668,387	330,723	82,707	884,482	1,966,299
Unallocated liabilities					1,135
Total liabilities	668,387	330,723	82,707	884,482	1,967,434

	1 January - 31 December 2015				
	Construction contracts	Rental	Trade	Energy	Consolidated
Other segment information					
Capital expenditures					
Property, plant and equipment & investment property	77,592	54,772	126	27,618	160,108
Intangible assets	588	154	10	332	1,084
Total capital expenditures	78,180	54,926	136	27,950	161,192
Depreciation expenses	41,410	3,871	1,880	51,227	98,388
Amortization expenses	1,286	67	132	116	1,601

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5. SEGMENTAL INFORMATION (cont’d)

a) Business segments (cont’d)

Transfer prices between business segments are set out on an arm’s length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

For the year ended 31 December 2016, revenues amounting to USD 1,561,771 (31 December 2015 - USD 2,491,247) is from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ), the share of which in consolidated revenue exceeds 10%. For the year ended 31 December 2016, cost of sales of the above mentioned revenues from TETAŞ, amounting to USD 1,135,046 (31 December 2015 - USD 2,095,785) is related with the purchases from Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ), the share of which in consolidated cost of revenues exceeds 10%.

b) Geographical segments

	1 January - 31 December 2016					
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	2,181,304	697,006	320,707	307,096	-	3,506,113
Inter-segment sales	48,986	44,777	-	-	(93,763)	-
Capital expenditures	87,091	64,864	10,323	2,146	-	164,424

	31 December 2016					
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	3,939,143	2,380,154	152,300	1,114,815	-	7,586,412

	1 January - 31 December 2015					
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	3,183,384	612,713	464,200	294,458	-	4,554,755
Inter-segment sales	64,256	39,452	-	-	(103,708)	-
Capital expenditures	75,483	76,076	7,642	1,991	-	161,192

	31 December 2015					
	Turkey	Russian Federation, Kazakhstan, Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	3,816,537	2,042,646	220,170	1,065,167	-	7,144,520

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6. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	1,837	1,967
Cash in bank		
Demand deposits	647,980	618,953
Time deposits	347,260	325,358
Other	2,943	2,910
	<u>1,000,020</u>	<u>949,188</u>
Less: restricted time deposits with maturity over three months and less than one year	(1,000)	(1,000)
Cash and cash equivalents at consolidated statement of cash flows	<u>999,020</u>	<u>948,188</u>

Informations about the nature and level of risks related to cash and cash equivalents are provided in Note 34.

7. FINANCIAL INVESTMENTS

Current financial investments

Short-term financial investments of the Group classified as financial assets at fair value through profit or loss as of 31 December 2016 and 2015 are detailed below:

	31 December 2016	31 December 2015
Financial assets at fair value through profit or loss		
Private sector bonds		
- International markets	40,736	19,394
Foreign Government bonds		
- International markets	267,639	339,906
Equity securities		
- International markets	273,216	308,674
Mutual funds		
- International markets	102,480	107,077
- Domestic market	62	86
	<u>684,133</u>	<u>775,137</u>

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7. FINANCIAL INVESTMENTS (cont’d)

Non-current financial investments

Long-term financial investments of the Group classified as financial assets at fair value through profit or loss as of 31 December 2016 and 2015 are detailed below:

	31 December 2016	31 December 2015
<u>Financial assets at fair value through profit or loss</u>		
Private sector bonds		
- International markets	1,466,390	1,174,200
Foreign Government bonds		
- International markets	15,015	25,948
Turkish Government bonds		
- International markets	28,742	25,839
Equity securities	253	360
	<u>1,510,400</u>	<u>1,226,347</u>

Maximum maturity dates of financial assets in the nature of borrowings are as follows:

	31 December 2016	31 December 2015
Private Sector Bonds - International markets	28 March 2073	31 December 2049
Foreign Government Bonds - International markets	17 October 2044	17 October 2044
Turkish Government Bonds - International markets	14 January 2041	14 January 2041

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8. FINANCIAL LIABILITIES

a) Bank loans

	31 December 2016			
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Short-term borrowings:				
Short-term bank borrowings	0.75%	EUR	13,500	14,232
	2.15%	USD	10,047	10,047
Total short-term borrowings				<u><u>24,279</u></u>
Long-term borrowings:				
Hermes loan (*)	1.16%	EUR	732	771
Other long-term bank borrowings (*)	2.50%	EUR	49,999	52,708
	1.89%	JPY	8,101,623	69,124
Finance lease obligations				137,128
				<u>259,731</u>
Less: Current portion of long-term borrowings				(42,482)
Total long-term borrowings				<u><u>217,249</u></u>

(*) Hermes loan and loan denominated in Japanese Yen were obtained to finance the operations of Enka Pazarlama which is the subsidiary of the Group.

	31 December 2015			
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Short-term borrowings:				
Short-term bank borrowings	1.75%	EUR	3,350	3,661
	2.40%	USD	2,351	2,351
	-	TL	186	64
Total short-term borrowings				<u><u>6,076</u></u>

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8. FINANCIAL LIABILITIES (cont’d)

a) Bank loans (cont’d)

Long-term borrowings:	31 December 2015			
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Hermes loan (*)	1.00%	EUR	3,287	3,592
Other long-term bank borrowings (*)	2.18%	JPY	7,111,507	58,891
	-	TL	546	188
Finance lease obligations				76,392
				<u>139,063</u>
Less: Current portion of long-term borrowings				(34,773)
Total long-term borrowings				<u><u>104,290</u></u>

(*) Hermes loan and loan denominated in Japanese Yen were obtained to finance the operations of Enka Pazarlama which is the subsidiary of the Group.

Repayment schedule of long-term bank borrowings are as follows:

	31 December 2016	31 December 2015
Less than 1 year	37,869	32,184
1 - 2 years	30,026	29,555
2 - 3 years	22,543	233
3 - 4 years	22,542	233
4 - 5 years	9,623	233
More than 5 years	-	233
Less : Current portion of long-term borrowings	(37,869)	(32,184)
	<u>84,734</u>	<u>30,487</u>

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8. FINANCIAL LIABILITIES (cont’d)

b) Finance lease obligations

	31 December 2016			
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Current portion of long-term finance lease obligations	3.00%	RUB	279,775	4,613
				<u>4,613</u>
Long-term	3.00%	RUB	8,038,026	132,515
				<u>132,515</u>
				<u><u>137,128</u></u>

	31 December 2015			
	Weighted Average Interest Rate	Currency Type	Original Currency	USD Equivalent
Current portion of long-term finance lease obligations	3.00%	RUB	188,704	2,589
				<u>2,589</u>
Long-term	3.00%	RUB	5,378,946	73,803
				<u>73,803</u>
				<u><u>76,392</u></u>

c) Finance lease commitments

As of 31 December 2016 and 2015, repayment schedule of finance lease obligations are as follows:

	31 December 2016	31 December 2015
Less than 1 year	4,613	2,589
1 - 5 years	24,495	16,693
More than 5 years	108,020	57,110
Total finance lease obligations	<u>137,128</u>	<u>76,392</u>
Interest	-	-
Present value of total finance lease obligations	<u><u>137,128</u></u>	<u><u>76,392</u></u>

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9. TRADE RECEIVABLES AND PAYABLES

a) Trade receivables

	31 December 2016	31 December 2015
<u>Short-term trade receivables</u>		
Trade receivables	186,960	298,007
Discount on trade receivables (-)	(31)	(31)
Contract receivables	248,381	224,636
Notes and cheques receivables	3,288	6,120
Discount on notes and cheques receivables (-)	(134)	(163)
Retention receivables (*)	10,421	27,921
	<u>448,885</u>	<u>556,490</u>
Less: Allowance for doubtful receivables	(28,947)	(28,702)
	<u>419,938</u>	<u>527,788</u>

(*) Retention receivables are described as withheld by the customers until the contracts are completed or, in certain instances for even longer periods and undue trade receivables in the construction contracts.

Collection periods of receivables from construction works depends on the agreement conditions are between 30 and 90 days.

As of 31 December 2016 and 2015, movement of allowance for doubtful receivables is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Balance at beginning of the year	28,702	32,305
Additional provision (Note 26)	4,141	3,292
Foreign currency translation effect	(249)	(4,968)
Amounts recovered during the year (Note 26)	(189)	(194)
Write-offs (*)	(3,458)	(1,733)
Closing balance	<u>28,947</u>	<u>28,702</u>

(*) Allowances of the previous periods which were decided as bad debts were written-off as of 31 December 2016 and 2015.

	31 December 2016	31 December 2015
<u>Long-term trade receivables</u>		
Notes and cheques receivables	800	1,049
Discount on notes and cheques receivables (-)	(22)	(16)
Trade receivables	28,175	7,762
Discount on trade receivables (-)	(20)	(15)
	<u>28,933</u>	<u>8,780</u>

Explanations about the nature and level of risks related to trade receivables are provided in Note 34.

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9. TRADE RECEIVABLES AND PAYABLES (cont’d)

b) Trade payables

	31 December 2016	31 December 2015
<u>Short-term trade payables</u>		
Trade payables	237,699	412,186
Notes payable	73	119
Other trade payables	338	17,899
	<u>238,110</u>	<u>430,204</u>

Explanations about the nature and level of risks related to trade payables are provided in Note 34.

10. OTHER RECEIVABLES AND PAYABLES

a) Other receivables

	31 December 2016	31 December 2015
<u>Short-term other receivables</u>		
Deposits and guarantees given	1,537	446
Other receivables from related parties (Note 33)	-	19
	<u>1,537</u>	<u>465</u>

b) Other payables

	31 December 2016	31 December 2015
<u>Short-term other payables</u>		
Deposits and guarantees taken	13,133	18,575
Other payables to related parties (Note 33)	90	860
	<u>13,223</u>	<u>19,435</u>

	31 December 2016	31 December 2015
<u>Long-term other payables</u>		
Deposits and guarantees taken	20,708	22,898
Other taxes payable	1,351	-
	<u>22,059</u>	<u>22,898</u>

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11. INVENTORIES

	31 December 2016	31 December 2015
Raw materials and spare parts	174,220	150,463
Work in progress	24,167	15,158
Trade goods (machinery and others)	25,969	31,987
Finished goods	6,502	5,899
Goods in transit	9,577	14,722
Construction materials	25,321	16,046
Allowance for impairment on inventory (*)	(952)	(676)
	<u>264,804</u>	<u>233,599</u>

(*) As of 31 December 2016 and 2015, allowance for impairment on finished goods and trade goods is recognized as an expense in cost of sales.

As of 31 December 2016, there is not any pledge on inventories (31 December 2015 - None).

12. CONSTRUCTION CONTRACTS

	31 December 2016	31 December 2015
Costs incurred on uncompleted contracts	1,802,842	2,131,584
Recognized profit less recognized losses to date, net	265,532	275,997
	<u>2,068,374</u>	<u>2,407,581</u>
Less: Progress billing	(2,306,341)	(2,488,637)
	<u>(237,967)</u>	<u>(81,056)</u>

The net balance is included in the consolidated balance sheet under the following captions:

	31 December 2016	31 December 2015
Costs and estimated earnings in excess of billings on uncompleted contracts (net)	3,060	79,844
Billings in excess of costs and estimated earnings on uncompleted contracts (net)	(241,027)	(160,900)
	<u>(237,967)</u>	<u>(81,056)</u>

As of 31 December 2016, the amount of advances received of subsidiaries and companies shares in joint operations is USD 68,406 (31 December 2015: USD 105,059).

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13. INVESTMENT PROPERTIES

As of 31 December 2016 and 2015, movement of investment properties is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	1,558,724	1,814,215
Currency translation difference	180,443	(259,445)
Change in fair value, net (Note 27)	45,870	11,199
Additions	54,474	51,560
Change in present value of lease obligations	47,465	(57,390)
Disposals	(65)	(1,415)
Closing balance	<u>1,886,911</u>	<u>1,558,724</u>

Investment properties include mainly real estate properties in Russia and Turkey which are leased to tenants. As of 31 December 2016 and 2015 investment properties consist of real estates in Russia from which rent income is obtained and lands and buildings held as investment in Turkey amounting to USD 11,021 (31 December 2015 - USD 11,021). These properties are revalued by Artı Gayrimenkul Değerleme A.Ş. which is a CMB licenced independent valuation firm.

“Krasconsalt” which is licenced by Russian Federation as an independent valuation firm, has revalued the fair values of the investment properties of the Group in Russia.

Investment properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been revalued at fair value. Fair values of such investment properties are reviewed every year through the report of independent valuers. As of 31 December 2016, the fair values of investments properties of the consolidated subsidiaries MKH, Mosenka and Enka TC have been set respectively as follows: MKH; 11.84 million RUB equivalent to USD 195,131 (31 December 2015 - 11.47 million RUB equivalent to USD 157,416), Mosenka; 4.42 million RUB equivalent to USD 72,911 (31 December 2015 - 4.51 million RUB equivalent to USD 61,909), Enka TC; 48.72 million RUB equivalent to USD 803,184 (31 December 2015 – 44.56 million RUB equivalent to USD 611,518).

The fair values of the investment properties of the Company in Russia, determined at 31 December 2016 as USD 654,946 (31 December 2015 - USD 627,879). The investment properties of the Group located in Moscow includes land leased from Moscow City Authorities under a 49 year operating lease agreement, which are renewable at the option of the Group.

The investment properties owned by the Group are carried at fair value determined by independent professionally qualified valuers on the basis of market value supported by market evidence and other information obtained in the course of market research. Fair values of such investment properties are periodically reviewed by the Group through the report of independent valuers.

For the circumstances that the fair value of the properties have not been determined based on transactions observable in the market because of the nature of the property and the lack of comparable data, a valuation model based on income capitalisation method has been applied. The fair value of the investment properties of the Group are estimated by using income capitalization method, with capitalization and discount rates ranging between 11.60% to 15.80% and 11.40% to 15.60% (31 December 2015 – 11.35% to 16.22% and 11.57% to 16.44%) respectively.

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13. INVESTMENT PROPERTIES (cont'd)

As of 31 December 2016 and 2015 fair value hierarchy table of investment properties is as follows:

	31 December 2016	Fair value as at 31 December 2016		
		1. Level USD	2. Level USD	3. Level USD
Investment properties in Russia	1,875,890	-	-	1,875,890
Investment properties in Turkey	11,021	-	11,021	-
Total	1,886,911	-	11,021	1,875,890

	31 December 2015	Fair value as at 31 December 2015		
		1. Level USD	2. Level USD	3. Level USD
Investment properties in Russia	1,547,703	-	-	1,547,703
Investment properties in Turkey	11,021	-	11,021	-
Total	1,558,724	-	11,021	1,547,703

There is no transition between second and third levels during the year.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings and barracks	Machinery and equipment	Motor vehicles	Furniture and fixtures	Scaffolding and formworks	Aircraft (*)	Others	Construction in progress	Total
Cost										
Opening balance as of 1 January 2016	222,762	147,104	2,076,150	33,365	53,906	26,212	14,899	12,153	21,765	2,608,316
Currency translation differences	(2,514)	2,832	(1,588)	76	81	(35)	-	277	107	(764)
Revaluation (**)	15,091	377	-	-	-	-	-	-	-	15,468
Additions	971	5,113	41,509	1,717	4,073	933	-	2,424	46,819	103,559
Other reclassifications (***)	-	575	16,583	191	239	-	-	(80)	-	17,508
Disposals	(1,041)	(2,759)	(7,999)	(1,322)	(2,730)	(4,221)	-	(90)	(2,675)	(22,837)
Transfers to investment properties	713	11,984	35,922	348	15	-	-	112	(49,094)	-
Closing balance as of 31 December 2016	235,982	165,226	2,160,577	34,375	55,584	22,889	14,899	14,796	16,922	2,721,250
Accumulated depreciation										
Opening balance as of 1 January 2016	(28,945)	(20,261)	(874,464)	(18,236)	(42,085)	(24,403)	(8,281)	(11,363)	-	(1,028,038)
Currency translation differences	(368)	(228)	1,489	61	54	12	-	(60)	-	960
Revaluation (**)	4,733	6,810	-	-	-	-	-	-	-	11,543
Charge of the year	(3,093)	(8,790)	(80,661)	(2,499)	(4,419)	(701)	(473)	(1,176)	-	(101,812)
Other reclassifications (***)	-	(575)	(16,151)	(345)	(243)	-	(1,181)	987	-	(17,508)
Disposals	39	2,422	5,569	953	2,235	4,221	-	171	-	15,610
Closing balance as of 31 December 2016	(27,634)	(20,622)	(964,218)	(20,066)	(44,458)	(20,871)	(9,935)	(11,441)	-	(1,119,245)
Net book value as of 1 January 2016	193,817	126,843	1,201,686	15,129	11,821	1,809	6,618	790	21,765	1,580,278
Net book value as of 31 December 2016	208,348	144,604	1,196,359	14,309	11,126	2,018	4,964	3,355	16,922	1,602,005

(*) The amount consists of the aircraft used by subsidiary of the Company, Air Enka.

(**) As of 31 December 2016, Group’s investments in Turkey are revalued by Artı Gayrimenkul Değerleme A.Ş. which is a CMB licenced independent valuation firm and hotel building of MKH is revalued by independent qualified valuer “American Appraisal”. Revaluation difference arising from difference between book value and fair value is netted off with the related deferred tax and classified as revaluation surplus and included under equity. Revaluations are made by discounted cash flow methods.

(***) Other reclassifications are classifications between sub-groups of fixed assets and have no effect on net book value of fixed assets.

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14. PROPERTY, PLANT AND EQUIPMENT (cont’d)

	Land and land improvements	Buildings and barracks	Machinery and equipment	Motor vehicles	Furniture and fixtures	Scaffolding and formworks	Aircraft (*)	Others	Construction in progress	Total
Cost										
Opening balance as of 1 January 2015	235,933	159,701	2,024,726	35,069	57,948	28,372	14,899	8,673	14,848	2,580,169
Currency translation differences	(7,363)	(16,848)	(11,880)	(89)	(6,101)	287	-	2,380	(1,085)	(40,699)
Revaluation (**)	-	(5,154)	-	-	-	-	-	-	-	(5,154)
Additions	1,498	10,979	41,338	3,885	4,791	348	-	1,865	43,844	108,548
Disposals	(7,306)	(1,889)	(11,885)	(5,500)	(2,732)	(2,795)	-	(765)	(1,676)	(34,548)
Transfers (***)	-	315	33,851	-	-	-	-	-	(34,166)	-
Closing balance as of 31 December 2015	222,762	147,104	2,076,150	33,365	53,906	26,212	14,899	12,153	21,765	2,608,316
Accumulated depreciation										
Opening balance as of 1 January 2015	(26,655)	(13,522)	(810,574)	(20,022)	(42,283)	(25,700)	(7,174)	(8,343)	-	(954,273)
Currency translation differences	(86)	739	7,571	(158)	2,187	(30)	-	(1,278)	-	8,945
Revaluation (**)	-	777	-	-	-	-	-	-	-	777
Charge of the year	(2,204)	(9,126)	(76,854)	(2,079)	(4,306)	(636)	(1,107)	(2,076)	-	(98,388)
Disposals	-	871	5,393	4,023	2,317	1,963	-	334	-	14,901
Closing balance as of 31 December 2015	(28,945)	(20,261)	(874,464)	(18,236)	(42,085)	(24,403)	(8,281)	(11,363)	-	(1,028,038)
Net book value as of 1 January 2015	209,278	146,179	1,214,152	15,047	15,665	2,672	7,725	330	14,848	1,625,896
Net book value as of 31 December 2015	193,817	126,843	1,201,686	15,129	11,821	1,809	6,618	790	21,765	1,580,278

(*) The amount consists of the aircraft used by subsidiary of the Company, Air Enka.

(**) As of 31 December 2015, hotel building of MKH is revalued by independent qualified valuer “American Appraisal”. Revaluation difference arising from difference between book value and fair value is netted off with the related deferred tax and classified as revaluation surplus and included under equity. Revaluations are made by discounted cash flow methods.

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14. PROPERTY, PLANT AND EQUIPMENT (cont’d)

As of 31 December 2016, total cost of property, plant and equipment obtained via finance lease and the related accumulated depreciation amounts to USD 4,063 (31 December 2015 - USD 4,477) and USD 3,730 (31 December 2015 - USD 3,785).

As of 31 December 2016, there is no security on the property, plant and equipment of the Group (31 December 2015 - None).

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2016	31 December 2015
Cost	295,355	288,241
Accumulated depreciation	(99,749)	(96,776)
Net book value	<u>195,606</u>	<u>191,465</u>

The distribution of depreciation expenses as of 31 December 2016 and 2015 is presented in Note 25.

As of 31 December 2016 and 2015 fair value hierarchy table of fixed asset is as follows:

	31 December 2016	Fair value as at 31 December 2016		
		1. Level USD	2. Level USD	3. Level USD
Lands	208,348	-	208,348	-
Buildings	144,604	-	-	144,604
Total	<u>352,952</u>	<u>-</u>	<u>208,348</u>	<u>144,604</u>

	31 December 2015	Fair value as at 31 December 2015		
		1. Level USD	2. Level USD	3. Level USD
Lands	193,817	-	193,817	-
Buildings	126,843	-	-	126,843
Total	<u>320,660</u>	<u>-</u>	<u>193,817</u>	<u>126,843</u>

There is no transition between second and third levels during the year.

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15. INTANGIBLE ASSETS

	1 January - 31 December 2016	1 January - 31 December 2015
<u>Cost</u>		
Opening balance	31,024	31,239
Currency translation difference	(65)	(1,056)
Additions	6,391	1,084
Disposals	(25)	(243)
Closing balance	<u>37,325</u>	<u>31,024</u>
<u>Accumulated amortization</u>		
Opening balance	(10,784)	(10,164)
Currency translation difference	(294)	752
Charge of the year	(1,808)	(1,601)
Disposals	23	229
Closing balance	<u>(12,863)</u>	<u>(10,784)</u>
Carrying value	<u>24,462</u>	<u>20,240</u>

As of 31 December 2016, there is not any pledge on intangible assets (31 December 2015 - None).

The distribution of amortization expenses as of 31 December 2016 and 2015 is presented in Note 25.

16. GOODWILL

The Group had acquired the remaining 100% interest stake in the Power Companies between the years 2003 to 2005, where the Company had 40% shareholding. As a result of these acquisitions goodwill amounting to USD 55,168 (31 December 2015 - USD 55,168) was recorded in the consolidated financial statements. There is no impairment of the goodwill.

As of 31 December 2016 and 2015, the movement of goodwill is as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	55,168	55,168
Closing balance	<u>55,168</u>	<u>55,168</u>

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17. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2016	31 December 2015
<u>Short-term Prepaid Expenses</u>		
Advances given	40,599	71,791
Prepaid expenses	5,080	8,259
	<u>45,679</u>	<u>80,050</u>
	31 December 2016	31 December 2015
<u>Long-term Prepaid Expenses</u>		
Prepaid expenses	4,868	1,222
	<u>4,868</u>	<u>1,222</u>
	31 December 2016	31 December 2015
<u>Short-term Deferred Income</u>		
Advances taken	53,519	79,008
Deferred rent revenue	45,162	61,766
	<u>98,681</u>	<u>140,774</u>
	31 December 2016	31 December 2015
<u>Long-term Deferred Income</u>		
Deferred income (*)	311,662	475,655
Advances taken	17,080	29,066
Deferred rent revenue	739	1,176
	<u>329,481</u>	<u>505,897</u>

(*) Represents the Power Companies' deferred income, which is the difference between the average price recognized over the life of the project and actual charges.

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18. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
<u>Short-term accrued expenses</u>		
Accrual for construction costs	38,631	28,693
Provision for legal claims	11,029	10,801
Accrued expenses	7,892	7,361
Forward accrual (*)	891	1,370
Other accrued expenses	22	28
	<u>58,465</u>	<u>48,253</u>

(*) As of 31 December 2016, the Group’s derivative liabilities formed from forward foreign-currency transactions are USD 891 (31 December 2015 - derivative liabilities USD 1,370). These contracts are reflected in the consolidated financial statements as follows.

Derivative instruments / forward contracts purchase – sales agreements

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows derivative financial instruments analyzed by the term to maturity. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

As of 31 December 2016 and 2015, the fair value of financial instrument is calculated by using forward exchange rates at the balance sheet date.

	31 December 2016			
	Unrealized Loss	1 to 12 months	1 to 2 years	2 to 5 years
Derivative instruments	(891)	-	-	-
Forward contracts sales agreements	-	34,920	-	-
Forward contracts purchase agreements	-	34,752	-	-

	31 December 2015			
	Unrealized Loss	1 to 12 months	1 to 2 years	2 to 5 years
Derivative instruments	(1,370)	-	-	-
Forward contracts sales agreements	-	58,283	-	-
Forward contracts purchase agreements	-	56,934	-	-

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19. COMMITMENTS

Operating lease commitments – Group as lessor

The minimum future rental income of the Group under non-cancelable operating leases at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Within one year	252,694	265,411
After one year but not more than five years	569,690	630,289
More than 5 years	250,494	247,467
	<u>1,072,878</u>	<u>1,143,167</u>

Litigations

As of 31 December 2016, the international arbitration which has been filed by the Group for the losses incurred and unbilled receivables related to the joint operation in Oman was under progress. Necessary provisions have been reserved in the Group’s consolidated financial statements.

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19. COMMITMENTS (cont’d)

The breakdown of letters of guarantee, guarantee notes given, mortgage and pledges (together referred to as Guarantees) by the Group as of 31 December 2016 and 2015 is as follows:

Letters of guarantee, guarantee notes given, mortgage and pledges	31 December 2016		31 December 2015	
	Original Currency	USD Equivalent	Original Currency	USD Equivalent
A. Total amount of guarantees provided by the Company on behalf of itself		543,737		758,850
-USD	398,701	398,701	653,008	653,008
-EUR	101,035	106,510	85,404	93,334
-TL	53,923	15,323	28,749	9,888
-Others (*)		23,203		2,620
B. Total amount for guarantees provided on behalf of subsidiaries accounted under full consolidation method		70,033		62,896
-USD	85	85	85	85
-EUR	526	555	3,285	3,591
-TL	957	272	957	329
-Others (*)		69,121		58,891
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)		-		-
D. Other guarantees given		-		-
i. Total amount of guarantees given on behalf of the parent company		-		-
ii. Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C		-		-
iii. Total amount of guarantees provided on behalf of third parties which are not in the scope of C		-		-
		<u>613,770</u>		<u>821,746</u>

(*) U.S Dollar equivalents of letters of guarantee, guarantee notes given, mortgage and pledges other than USD, TL and EUR.

As of 31 December 2016 the portion of other guarantess given to shareholders’ equity is 0% (31 December 2015 - 0%).

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20. PROVISIONS FOR EMPLOYEE BENEFITS

a) Short-term employee benefits

Liabilities with the scope of employee benefits

	31 December 2016	31 December 2015
Payroll payable	21,873	13,551
	<u>21,873</u>	<u>13,551</u>

Short-term provisions related to employee benefits

	31 December 2016	31 December 2015
Bonus accrual	9,402	5,057
Vacation pay liability	8,940	9,626
	<u>18,342</u>	<u>14,683</u>

b) Long-term employee benefits

In accordance with existing social legislation, the Company and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days’ pay limited to a maximum of full TL 4,297 equivalent to full USD 1,221 (31 December 2015 - full TL 3,828 equivalent to full USD 1,317) per year of employment at the rate of pay applicable at the date of retirement or termination.

The liability is not funded as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with 3.99% real discount rate, assuming an annual inflation rate of 6.5% and a discount rate of 10.75% (31 December 2015 – 3.99 %).

Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration. Retirement ceiling pay revised each six month period basis and ceiling amount of full TL 4,426 which is in effect since 1 January 2017 is used in the calculation of Groups’ provision for retirement pay liability (1 January 2016 – full TL 4,093).

Movements of the provision for employee termination benefits during years ended 31 December 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Opening balance	16,952	16,294
Service cost	2,606	2,589
Actuarial loss	483	2,005
Retirement benefits paid	(1,830)	(1,869)
Translation gain	(1,921)	(2,067)
Closing balance	<u>16,290</u>	<u>16,952</u>

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22. SHARE CAPITAL AND RESERVES

a) Share capital

The shareholders of the Group and their percentage of ownership as of 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
	Percentage of ownership	Amount	Percentage of ownership	Amount
Tara Holding A.Ş.	49.42%	1,208,431	49.27%	1,171,661
Vildan Gülçelik	7.99%	195,374	7.99%	190,005
Sevda Gülçelik	6.43%	157,228	6.43%	152,908
Enka Spor Eğitim ve Sosyal Yardım Vakfı	5.87%	143,535	5.87%	139,591
Other	30.29%	740,659	30.44%	723,876
	<u>100%</u>	<u>2,445,227</u>	<u>100%</u>	<u>2,378,041</u>
Purchase of treasury shares (*)		(12,032)		-
		<u>2,433,195</u>		<u>2,378,041</u>

(*) Group’s buyback transactions have reached 840,000,000 shares in 2016. Group has paid USD 12,032 for the buyback transactions.

Based on the Group’s Ordinary General Assembly held on 29 March 2016; it has been resolved to increase the share capital from TL 4,000,000 to TL 4,200,000; and covered the TL 200,000 from the 2nd Dividend.

Within the above mentioned shares, founders of Enka İnşaat and former Enka Holding have one thousand founders share each. The founder shares of Enka İnşaat and the founder shares of former Enka Holding are entitled to receive, 5% and 2.5%, respectively, of the net income after the deduction of legal reserve and the first dividends.

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22. SHARE CAPITAL AND RESERVES (cont’d)

b) Revaluation surplus

Revaluation fund

Revaluation difference arising from difference between book value and fair value of the buildings is netted off with the related deferred tax and classified as revaluation surplus and included under equity.

The movement of revaluation fund for years 2016 and 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance	148,222	161,888
Currency translation difference	836	(2,044)
Revaluation of fixed assets	33,826	(4,377)
Deferred tax effect of revaluation of fixed assets	3,624	875
Share of non-controlling interests	(2,376)	-
Transfer of depreciation difference (net of deferred tax) of revaluation effect	(2,128)	(2,278)
Transfer of revaluation surplus of sold lands	-	(5,842)
Closing balance	<u>182,004</u>	<u>148,222</u>

Financial Risk Hedge Fund

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

c) Legal reserves and accumulated profit

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (“TCC”). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the company’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital. Dividend distributions are made in TL in accordance with its Articles of Association, after deducting taxes and setting aside the legal reserves as discussed above.

Public companies in Turkey make profit distributions in accordance with the regulations of CMB.

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22. SHARE CAPITAL AND RESERVES (cont’d)

c) Legal reserves and accumulated profit (cont’d)

When net profit for the year ended 2016 based on consolidated financial statements prepared according to CMB and financial statements prepared in accordance with Turkish Trade Law are compared, distributable net profit for the year is determined as TL 1,693,697 equivalent to USD 561,182 after deduction of first legal reserve (2015 – TL 1,392,780 equivalent to USD 512,240).

Equity inflation adjustment and carrying value of extraordinary reserves can be used in free capital increase, cash profit distribution and loss deduction. However, equity inflation adjustment is subject to corporate tax if it is used in cash profit distribution.

As of 31 December 2016, legal reserves of Enka İnşaat are amounting to TL 560,570 equivalent to USD 159,289 (31 December 2015 – TL 471,353 equivalent to USD 162,111).

The movement of the share capital (in numbers and in historical TL) of the Group during 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
	Number	TL	Number	TL
At 1 January,	400,000,000,000	4,000,000	360,000,000,000	3,600,000
Bonus shares issued out of general reserve	20,000,000,000	200,000	40,000,000,000	400,000
Treasury shares	(840,000,000)	(8,400)	-	-
	<u>419,160,000,000</u>	<u>4,191,600</u>	<u>400,000,000,000</u>	<u>4,000,000</u>

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23. SALES AND COST OF SALES

	1 January - 31 December 2016	1 January - 31 December 2015
Sales		
Domestic sales	2,181,304	3,183,384
Export sales	1,324,809	1,371,371
	<u>3,506,113</u>	<u>4,554,755</u>
Cost of Sales		
Cost of domestic sales	1,776,448	2,815,339
Cost of export sales	937,100	964,227
	<u>2,713,548</u>	<u>3,779,566</u>

The Group is operating in five main geographical areas alone or together with its affiliated companies or, in partnerships with other contractors through joint ventures. Segmental information of the Group is disclosed in Note 5.

24. MARKETING, SALES, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Administrative expenses	118,292	103,883
Marketing, sales and distribution expenses	30,968	28,624
	<u>30,968</u>	<u>28,624</u>

a) Marketing, sales and distribution expenses

	1 January - 31 December 2016	1 January - 31 December 2015
Employee benefit expenses	21,344	19,572
Transportation expenses	1,762	1,536
Office expenses	1,046	1,097
Business development expenses	339	522
Depreciation and amortization expenses (Note 25)	67	182
Other	6,410	5,715
	<u>30,968</u>	<u>28,624</u>

b) General administrative expenses

	1 January - 31 December 2016	1 January - 31 December 2015
Employee benefit expenses	67,617	59,941
Consulting and legal expenses	16,027	8,830
Depreciation and amortization expenses (Note 25)	6,701	6,213
Insurance expense	5,336	5,233
Transportation expenses	4,404	5,585
Rent expenses	915	1,276
Other	17,292	16,805
	<u>118,292</u>	<u>103,883</u>

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25. EXPENSES BY NATURE

Depreciation and amortization expenses are detailed below:

	1 January - 31 December 2016	1 January - 31 December 2015
<u>Depreciation expenses</u>		
Cost of revenues	95,387	92,302
Selling and administrative expenses	6,425	6,086
	<u>101,812</u>	<u>98,388</u>
<u>Amortization expenses</u>		
Cost of revenues	1,465	1,292
Selling and administrative expenses	343	309
	<u>1,808</u>	<u>1,601</u>
	<u>103,620</u>	<u>99,989</u>

Employee benefit expenses are detailed below:

	1 January - 31 December 2016	1 January - 31 December 2015
Wages and salaries	218,189	233,135
Social security costs	34,456	36,222
Provision for employee termination benefits	3,089	4,594
Other benefits	6,716	4,551
	<u>262,450</u>	<u>278,502</u>

26. OTHER OPERATING INCOME / EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
<u>Other operating income</u>		
Foreign exchange gains from trade receivables	10,553	14,308
Compensation income (net)	6,085	3,423
Machinery and other rent income	1,802	1,938
Repaired spare parts gained as an inventory	1,297	2,723
Insurance income	908	374
Service income	735	963
Collection of doubtful receivables (Note 9)	189	194
Commission income	183	65
Warranty income	-	1,115
Other	3,657	2,935
	<u>25,409</u>	<u>28,038</u>

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26. OTHER OPERATING INCOME / EXPENSES (cont’d)

Other operating expense	1 January - 31 December 2016	1 January - 31 December 2015
Litigation provisions	10,004	19,256
Foreign exchange losses from trade receivables	9,722	16,748
Loss from change in fair value of lands	6,815	-
Provision for doubtful receivables (Note 9)	4,141	3,292
Donations	3,953	4,613
Commission expense	685	912
Capital increase expense	541	704
Rent expense	-	80
Other	4,935	4,246
	40,796	49,851

27. INVESTMENT INCOME / EXPENSES

Income from investing activities	1 January - 31 December 2016	1 January - 31 December 2015
Interest revenue from financial investments	92,143	71,272
Increase in value of financial investments	63,416	28,104
Increase in the fair value of investment properties (Note 13)	45,870	11,199
Income from sale of securities	41,833	25,088
Foreign exchange income from investing activities	16,053	49,051
Dividend income	9,618	7,446
Gains from sales of property, plant and equipment	4,205	3,544
	273,138	195,704

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27. INVESTMENT INCOME / EXPENSES (cont'd)

	1 January - 31 December 2016	1 January - 31 December 2015
Expenses from investing activities		
Losses from valuation of investment securities	(53,254)	(92,190)
Foreign exchange losses from investing activities	(41,439)	(24,053)
Losses from sale of securities	(34,192)	(19,374)
Loss from sales of property, plant and equipment	(803)	(152)
	<u>(129,688)</u>	<u>(135,769)</u>

28. FINANCIAL INCOME

	1 January - 31 December 2016	1 January - 31 December 2015
Foreign exchange gains	18,403	22,653
Interest income	6,709	8,708
Forward income	2,092	147
Due date charges on credit sales	-	8
Other	108	-
	<u>27,312</u>	<u>31,516</u>

29. FINANCIAL EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Bank commission expenses	5,160	5,672
Interest expenses	2,858	2,792
Foreign exchange losses	1,559	7,357
Forward losses	1,016	3,725
Commission expenses of letters of guarantee	507	397
Other	113	187
	<u>11,213</u>	<u>20,130</u>

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30. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Lands and buildings held for sale

As of 31 December 2016, assets held for sale comprise of lands and buildings obtained by Enka Pazarlama in consideration of its doubtful receivables are amounting to USD 684 (31 December 2015 – USD 852).

31. TAXATION ON INCOME

Tax legislation in Turkey

Enka İnşaat and its consolidated subsidiaries are subject to taxation in accordance with the tax procedures and the legislation effective in the countries in which they operate.

In Turkey, the corporation tax rate is 20% (31 December 2015 - 20%). Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% (31 December 2015: 20%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate entity basis.

Dividend income obtained from full fledged tax payer subsidiaries are exempt from corporate tax (except dividend obtained from investment fund shares and equities). 75% of the gains derived from the sale of preferential rights, usufruct shares and founding shares from investment equity and real property which have remained in assets for more than two full years are exempt from corporate tax. To be entitled to the exemption, the relevant gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of five years. The cost of the sale has to be collected up until the end of the second calendar year the sale was realized. Brokerage houses and real estate companies who are dealing with the trading and the leasing of real estate can not benefit from this exemption.

15% (31 December 2015 - 15%) withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

As of 31 December 2016 and 2015, components of tax expense are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Consolidated statement of profit or loss		
Current corporate tax	(143,588)	(127,551)
Deferred tax expense	(44,449)	(29,331)
	<u>(188,037)</u>	<u>(156,882)</u>

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31. TAXATION ON INCOME (cont’d)

Tax legislations in other countries

As of 31 December 2016 and 2015 effective corporation tax rate in other countries are as follows:

	31 December 2016	31 December 2015
Russia	20%	20%
Netherlands	25%	25%
Kazakhstan	% 28 - % 32	% 28 - % 32
Iraq	% 15 - % 35	% 15 - % 35
Romania	16%	16%
Oman	12%	12%
Kosovo	10%	10%

The movement of the current income tax liability is given as follows:

	2016	2015
1 January	56,430	51,706
Current year tax expense	143,588	127,551
Taxes paid	(148,039)	(122,827)
31 December	<u>51,979</u>	<u>56,430</u>

A reconciliation of the nominal (on the basis of the income tax rate of the Company and the Turkish subsidiaries) to the effective tax rate for the years ended 31 December 2016 and 2015 is provided below:

	1 January - 31 December 2016		1 January - 31 December 2015	
Profit before tax	787,467		692,190	
Tax per statutory tax rate 20%	157,493	20%	138,438	20%
Jobsites exempt from income tax	(9,454)	(1.2%)	(8,567)	(1.2%)
Effect of different functional currencies and others	39,998	5.1%	27,011	3.9%
Taxation charge	<u>188,037</u>	<u>23.9%</u>	<u>156,882</u>	<u>22.7%</u>

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31. TAXATION ON INCOME (cont'd)

As of 31 December 2016 and 2015, the breakdown of temporary differences which give rise to deferred taxes is as follows:

	31 December 2016	31 December 2015
Remeasurement and revaluation of property, plant and equipment, intangible assets and investment property	(435,679)	(426,494)
GE Inventory in the context of "PSA" (*)	(47,927)	(45,230)
Adjustments on financial instruments and derivatives	(11,276)	(9,037)
Gross deferred income tax liabilities	<u>(494,882)</u>	<u>(480,761)</u>
Adjustment of revenue levelization	61,709	94,180
Allowance for retirement pay liability	2,446	3,200
Allowance for doubtful receivables	2,562	2,187
Allowance for inventories	339	381
Others	7,924	17,298
Gross deferred income tax assets	<u>74,980</u>	<u>117,246</u>
Net deferred tax liability	<u><u>(419,902)</u></u>	<u><u>(363,515)</u></u>

(*) Implies deferred tax liabilities estimated from temporary differences related to "Parts and Services Agreement" (PSA) made with the Group's spare part supplier General Electric (GE).

Reflected as:

	31 December 2016	31 December 2015
Deferred tax assets	1,400	49
Deferred tax liabilities	(421,302)	(363,564)
Net deferred liabilities	<u><u>(419,902)</u></u>	<u><u>(363,515)</u></u>

Total amount of temporary differences and deferred tax liabilities which have not been recognized as of 31 December 2016 related with Group's shares in its subsidiaries, branches and associates is USD 1,623,266 (31 December 2015 - USD 1,535,783).

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31. TAXATION ON INCOME (cont’d)

Movement of net deferred tax asset (liability) can be presented as follows:

	31 December 2016	31 December 2015
Balance at 1 January	363,515	359,366
Deferred income tax expense recognized in consolidated statement of profit or loss	44,449	29,331
Deferred income tax expense recognized in equity	(3,786)	(1,276)
Currency translation difference	15,724	(23,906)
	<u>419,902</u>	<u>363,515</u>

As of 31 December 2016 and 2015, the breakdown of deferred taxes which are recognised in other comprehensive income is as follows:

	31 December 2016			31 December 2015		
	Before Taxation	Deferred tax (expense)/ income	Netted-off deferred tax	Before Taxation	Deferred tax (expense)/ income	Netted-off deferred tax
Change in revaluation of buildings	33,826	3,689	37,515	(4,377)	875	(3,502)
Revaluation loss of defined benefit plans	(483)	97	(386)	(2,005)	401	(1,604)
Changes in fair value of derivative assets	666	-	666	(1,207)	-	(1,207)
Changes in currency translation differences	136,747	-	136,747	(340,468)	-	(340,468)
	<u>170,756</u>	<u>3,786</u>	<u>174,542</u>	<u>(348,057)</u>	<u>1,276</u>	<u>(346,781)</u>

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32. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such bonus share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2016.

	<u>31 December 2016</u>	<u>31 December 2015</u>
Earning per share		
- ordinary share certificate (full cent)	0.14	0.13
- founder shares (*)	-	-
Weighted average number of share certificates (nominal value of 1 Kr each)		
- ordinary share certificate	<u>419,160,000,000</u>	<u>420,000,000,000</u>
-treasury shares	<u>(840,000,000)</u>	<u>-</u>

(*) Since 2016 profit distribution was not determined as of the date of the preparation date of the consolidated financial statements, total of the earnings per share is reflected on ordinary share certificates.

33. RELATED PARTY BALANCES AND TRANSACTIONS

Related parties

The Group is controlled by Tara Holding (49.42%) (31 December 2015 – 49.27%) and Tara and Gülçelik families (28.01%) (31 December 2015 – 27.89%). For the purposes of the consolidated financial statements, balances with the shareholder companies, individual shareholders, unconsolidated subsidiaries, associated companies, equity participations and their affiliates are referred to as “related parties”. Related parties also include management and members of the Group’s Board of Directors.

In the course of conducting business, the Group conducted various business transactions with related parties on commercial terms. The breakdown of balances with related parties and details of significant related party transactions are as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivable</u>	<u>Payables</u>
Shareholders	-	82	-	860
Enka Spor Kulübü	-	8	19	-
	<u>-</u>	<u>90</u>	<u>19</u>	<u>860</u>

(*) Funds provided by Enka İnşaat (in USD) with interest rates Libor + 0.5% and Libor + 2%.

As of 31 December 2016, the Group gained USD 6.96 rent income from related parties (31 December 2015 - USD 6.3). As of 31 December 2016 the Group does not have any sales to related parties (2015 - None).

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33. RELATED PARTY BALANCES AND TRANSACTIONS (cont’d)

Directors’ remuneration

The total wages paid for the members of Board of Directors of the Group is amounting to USD 7,112 (31 December 2015 - USD 5,152), the social security payments and retirement pay provisions are USD 632 (31 December 2015 – USD 471) and USD 272 (31 December 2015– USD 271) respectively. Total wages paid for the general manager, general coordinators and vice general managers of the Group (except BOD members), is amounting to USD 18,728 (31 December 2015 – USD 17,326), the social security payment and retirement pay provisions are USD 1,057 (31 December 2015 – USD 815) and USD 1,334 (31 December 2015 – USD 2,171) respectively.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s principal financial instruments comprise bank loans, investment securities, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks. The Group monitors the market price risk arising from all financial instruments periodically.

Capital risk management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Capital structure of the Group comprises from liabilities, cash and cash equivalents, paid-in capital and legal reserves explained in Note 22.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or the shareholders may make a direct cash contribution of the needed working capital to the Group. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 2015.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including ‘current and non-current borrowings’ as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the consolidated statement of financial position plus net debt.

Total Assets / Total Equity

	31 December 2016	31 December 2015
Cash and cash equivalents (*)	3,194,553	2,950,672
Less: Total Financial Liabilities	284,010	145,139
Net Assets	2,910,543	2,805,533
Equity	5,728,503	5,177,352
Equity - Net Assets	2,817,960	2,371,819
Total Net Assets to Equity Ratio	50.81%	54.19%

(*) Includes short and long term financial investments.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors

Interest risk

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s debt obligations with floating interest rates. The Group is managing interest risk that arises from assets and liabilities sensitive to interest risk by using derivative instruments.

The following table demonstrates the sensitivity to a reasonably possible increase of 1% in the interest rates, with all other variables held constant, on the floating rate borrowings of the Group’s profit before tax and the Group’s non-controlling interest.

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Financial assets with floating rates</u>		
Financial assets	-	-
Financial liabilities	(8)	(36)

Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Euro, Russian Ruble and also U.S Dollar which arises from the liabilities belonging to the companies in the consolidation scope, whose the functional currency is not U.S Dollar.

The Group is engaged in construction, trading, energy and real estate operations business in several countries and, as a result, is exposed to movements in foreign currency exchange rates. In addition to transactional exposures, the Group is also exposed to foreign exchange movements on its net investments in foreign subsidiaries. The Group manages foreign currency risk by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The foreign currency risk of the Group arises from the credits used in U.S. Dollars and Euro. In order to mitigate the risk, the Group continuously monitors its cash inflows/outflows and also uses financial instruments to hedge the risk when it is necessary.

The following table details the Group’s foreign currency position as at 31 December 2016 and 2015:

	<u>31 December 2016</u>	<u>31 December 2015</u>
A. Assets denominated in foreign currency	1,598,859	1,497,900
B. Liabilities denominated in foreign currency	<u>(424,604)</u>	<u>(339,131)</u>
Net foreign currency position (A+B)	<u>1,174,255</u>	<u>1,158,769</u>

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Foreign currency risk (cont’d)

The Group’s foreign currency position at 31 December 2016 and 2015 is as follows (non monetary items are not included in the table as they don’t have foreign currency risk):

	31 December 2016						
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	Total USD Equivalent
Cash and cash equivalents	28,033	7,966	197,247	207,938	192,380	100,465	508,749
Financial investments	235,130	66,814	69,137	72,884	93,243	272,485	505,426
Trade and other receivables	21,790	6,192	25,465	26,845	32,261	256	65,554
Other current assets	41,799	11,877	25,310	26,682	12,030	4,775	55,364
Current assets	326,752	92,849	317,159	334,349	329,914	377,981	1,135,093
Financial investments	-	-	10,255	10,811	38,231	397,318	446,360
Trade and other receivables	-	-	580	611	-	6,666	7,277
Other non-current assets	6,501	1,847	247	261	4,055	3,966	10,129
Non-current assets	6,501	1,847	11,082	11,683	42,286	407,950	463,766
Total assets	333,253	94,696	328,241	346,032	372,200	785,931	1,598,859
Short-term borrowings	-	-	14,026	14,786	37,855	-	52,641
Trade and other payables	39,662	11,270	53,185	56,068	34,142	3,515	104,995
Other current liabilities and accrued expenses	282,742	80,343	14,684	15,480	33,967	29,865	159,655
Current liabilities	322,404	91,613	81,895	86,334	105,964	33,380	317,291
Trade and other payables	-	-	-	-	-	15	15
Long-term borrowings	-	-	49,999	52,709	50,833	-	103,542
Other non-current liabilities	5,096	1,448	79	84	-	2,224	3,756
Non-current liabilities	5,096	1,448	50,078	52,793	50,833	2,239	107,313
Total liabilities	327,500	93,061	131,973	139,127	156,797	35,619	424,604
Net foreign currency position	5,753	1,635	196,268	206,905	215,403	750,312	1,174,255
Net notional amount of derivatives	-	-	2,450	2,583	-	-	2,583

(*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(**) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Foreign currency risk (cont’d)

	31 December 2015						
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	Total USD Equivalent
Cash and cash equivalents	32,484	11,172	196,245	214,476	164,640	122,498	512,786
Financial investments	147,177	50,618	56,971	62,263	144,498	374,501	631,880
Trade and other receivables	10,384	3,571	31,862	34,822	25,082	11,191	74,666
Other current assets	57,369	19,731	14,542	15,893	7,668	3,082	46,374
Current assets	247,414	85,092	299,620	327,454	341,888	511,272	1,265,706
Financial investments	-	-	3,582	3,915	46,812	165,633	216,360
Trade and other receivables	-	-	536	586	-	6,701	7,287
Other non-current assets	3,589	1,234	232	254	2,947	4,112	8,547
Non-current assets	3,589	1,234	4,350	4,755	49,759	176,446	232,194
Total assets	251,003	86,326	303,970	332,209	391,647	687,718	1,497,900
Short-term borrowings	121	42	6,111	6,679	29,203	-	35,924
Trade and other payables	46,337	15,936	56,058	61,266	40,183	911	118,296
Other current liabilities and accrued expenses	198,139	68,145	8,616	9,416	26,083	41,970	145,614
Current liabilities	244,597	84,123	70,785	77,361	95,469	42,881	299,834
Trade and other payables	-	-	-	-	-	-	-
Long-term borrowings	-	-	526	575	37,774	-	38,349
Other non-current liabilities	-	-	-	-	-	948	948
Non-current liabilities	-	-	526	575	37,774	948	39,297
Total liabilities	244,597	84,123	71,311	77,936	133,243	43,829	339,131
Net foreign currency position	6,406	2,203	232,659	254,273	258,404	643,889	1,158,769
Net notional amount of derivatives	-	-	52,096	56,936	-	-	56,936

(*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(**) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Foreign currency risk (cont’d)

The details of the forward contracts and sales-purchase agreements are explained in Note 18 in order to manage Group’s foreign currency position.

The following table demonstrates the sensitivity to reasonably possible increase of 10% in the exchange rates against functional currency, with all other variables held constant, of the Group’s consolidated statement of profit or loss.

The following table details the Group’s foreign currency sensitivity as at 31 December 2016 and 2015:

	31 December 2016		31 December 2015	
	Profit / (loss)		Profit / (loss)	
	Valuation of foreign currency	Valuation of foreign currency	Valuation of foreign currency	Valuation of foreign currency
<i>In the case of TL gaining 10% value against US Dollar</i>				
1- TL net asset / (liability)	164	(164)	220	(220)
2- Portion hedged against TL risk (-)	-	-	-	-
3- TL net effect (1+2)	164	(164)	220	(220)
<i>In the case of Euro gaining 10% value against US Dollar</i>				
4- Euro net asset / (liability)	20,691	(20,691)	25,427	(25,427)
5- Portion hedged against Euro risk (-)	258	(258)	5,694	(5,694)
6- Euro net effect (4+5)	20,949	(20,949)	31,121	(31,121)
<i>In the case of other foreign currencies gaining 10% value against US Dollar</i>				
7- Other foreign currency net asset / (liability)	21,540	(21,540)	25,840	(25,840)
8- Portion hedged against other foreign currency risk (-)	-	-	-	-
9- Other foreign currency net effect (7+8)	21,540	(21,540)	25,840	(25,840)
Total (3+6+9)	42,653	(42,653)	57,181	(57,181)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage its credit risk exposure through diversification of sales activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy counterparties. Therefore, the Group does not expect to incur material credit losses on its risk management or other financial instruments.

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Credit risk (cont’d)

	<u>Receivables</u>				<u>Bank deposits</u>	<u>Derivative instruments</u>	<u>Financial assets at fair value through profit or loss</u>
	<u>Trade receivables</u>		<u>Other receivables</u>				
	<u>Related party</u>	<u>3rd party</u>	<u>Related party</u>	<u>3rd party</u>			
31 December 2016							
The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E)	-	448,871	-	1,537	998,183	-	2,194,533
- Total receivable that have been secured with collaterals, other credit enhancements etc.*	-	120,254	-	-	-	-	-
A. Financial assets that are either past due or impaired	-	438,287	-	1,537	998,183	-	2,194,533
B. The amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated	-	-	-	-	-	-	-
C. The amount of financial assets that are past due as at the end of the reporting period but not impaired.	-	10,584	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	10,054	-	-	-	-	-
D. The amount of financial assets that are impaired	-	-	-	-	-	-	-
- Past due (Gross book value)	-	28,947	-	-	-	-	-
- The amount of impairment (-)	-	(28,947)	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	-	-	-	-	-	-
- Not past due (Gross book value)	-	-	-	-	-	-	-
- The amount of impairment (-)	-	-	-	-	-	-	-
E. Off balance sheet credit risk amount	-	-	-	-	-	-	-

(*) As of 31 December 2016, trade receivables from TETAŞ amounting to USD 103,308 are guaranteed by Turkish Treasury.

	<u>Receivables</u>		<u>Bank deposits</u>	<u>Derivative instruments</u>	<u>Other</u>
	<u>Trade receivables</u>	<u>Other receivables</u>			
31 December 2016					
Overdue between 1 to 30 days	3,129	-	-	-	-
Overdue between 1 to 3 months	925	-	-	-	-
Overdue between 3 to 12 months	5,533	-	-	-	-
Overdue between 1 to 5 years	546	-	-	-	-
Overdue over 5 years	451	-	-	-	-
	<u>10,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Credit risk (cont’d)

	Receivables				Bank deposits	Derivative instruments	Financial assets
	Trade receivables		Other receivables				at fair value
	Related party	3rd party	Related party	3rd party			through profit or loss
31 December 2015							
The maximum amount of exposure to credit risk at the end of the reporting period (A+B+C+D+E)							
- Total receivable that have been secured with collaterals, other credit enhancements etc.*	-	536,568	19	446	947,221	-	2,001,484
A. Financial assets that are either past due or impaired	-	211,944	-	-	-	-	-
B. The amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated	-	524,750	19	446	947,221	-	2,001,484
C. The amount of financial assets that are past due as at the end of the reporting period but not impaired.	-	-	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	11,818	-	-	-	-	-
D. The amount of financial assets that are impaired	-	8,241	-	-	-	-	-
- Past due (Gross book value)	-	-	-	-	-	-	-
- The amount of impairment (-)	-	28,702	-	-	-	-	-
- The amount that have been secured with collaterals, other credit enhancements etc.	-	(28,702)	-	-	-	-	-
- Not past due (Gross book value)	-	-	-	-	-	-	-
- The amount of impairment (-)	-	-	-	-	-	-	-
E. Off balance sheet credit risk amount	-	-	-	-	-	-	-

(*) As of 31 December 2015, trade receivables from TETAŞ amounting to USD 195,565 are guaranteed by Turkish Treasury.

	Receivables		Bank deposits	Derivative instruments	Other
	Trade receivables	Other receivables			
31 December 2015					
Overdue between 1 to 30 days	3,904	-	-	-	-
Overdue between 1 to 3 months	1,233	-	-	-	-
Overdue between 3 to 12 months	1,727	-	-	-	-
Overdue between 1 to 5 years	2,482	-	-	-	-
Overdue over 5 years	2,472	-	-	-	-
	<u>11,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. The risk is mitigated by matching the cash in and out flow volume supported by committed lending limits from qualified credit institutions.

The maturity analysis of the non-derivative financial liabilities is presented based on the period between balance sheet date and maturity date of these non-derivatives financial liabilities.

The table below summarizes the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments.

Current liabilities

31 December 2016

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>			
		<u>(I+II+III)</u>	<u>Up to 1 month (I)</u>	<u>1 to 3 months (II)</u>	<u>3 to 12 months (III)</u>
Non-derivative financial liabilities					
Financial liabilities and finance lease obligations	66,761	66,761	848	9,051	56,862
Trade payables	238,110	238,110	163,264	17,426	57,420
Other payables to related parties	90	90	90	-	-
Other payables	13,133	13,133	-	2	13,131

Non-current liabilities

31 December 2016

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>			
		<u>(I+II+III)</u>	<u>1 -3 years (I)</u>	<u>3 to 5 years (II)</u>	<u>5+ years (III)</u>
Non-derivative financial liabilities					
Financial liabilities and finance lease obligations	217,249	217,249	68,090	54,771	94,388
Other payables	22,059	22,059	21,852	207	-

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Financial risk factors (cont’d)

Liquidity risk (cont’d)

Current liabilities

31 December 2015

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>			
		<u>(I+II+III)</u>	<u>Up to 1 month (I)</u>	<u>1 to 3 months (II)</u>	<u>3 to 12 months (III)</u>
Non-derivative financial liabilities					
Financial liabilities and finance lease obligations	40,849	42,356	6,718	441	35,197
Trade payables	430,204	430,204	378,755	35,938	15,511
Other payables to related parties	860	860	860	-	-
Other payables	18,575	18,575	286	154	18,135

Non-current liabilities

31 December 2015

<u>Contractual maturity analysis</u>	<u>Carrying value</u>	<u>Total cash outflow according to contract</u>			
		<u>(I+II+III)</u>	<u>1 -3 years (I)</u>	<u>3 to 5 years (II)</u>	<u>5+ years (III)</u>
Non-derivative financial liabilities					
Financial liabilities and finance lease obligations	104,290	104,823	44,812	4,793	55,218
Other payables	22,898	22,898	22,595	243	60

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35. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK

Fair value of financial assets and liabilities

Fair value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Foreign currency denominated receivables and payables are revalued with the exchange rates valid as of the date of the financial statements.

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value on the balance sheet:

Financial assets

The fair values of cash, amounts due from banks and other monetary assets are considered to approximate their respective carrying values due to their short-term nature. The carrying values of trade receivables are estimated to be their fair values due to their short-term nature. It is considered that the fair values of the long term receivables are approximate to their respective carrying values as they are accounted for in foreign currencies.

Financial liabilities

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The fair values of bank borrowings are considered to approximate their respective carrying values, since initial rates applied to bank borrowings are updated periodically by the lender to reflect active market price quotations. The fair values of the trade receivables after discount are considered to be approximate to their corresponding carrying values. It is considered that the fair values of the long term payables and long term financial borrowings are approximate to their respective carrying values as they are accounted for in foreign currencies.

Fair value hierarchy

The Group classifies the fair value measurement of each class of financial instruments that are measured at fair value on the balance sheet, according to the source, using three-level hierarchy, as follows:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts are expressed as thousands of U.S. Dollars (“USD”) unless otherwise stated. Currencies other than USD are expressed in thousands unless otherwise indicated.)

35. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK (cont’d)

Fair value hierarchy (cont’d)

31 December 2016:

	Level 1	Level 2	Level 3
Private sector bonds	1,507,126	-	-
Equity securities	273,469	-	-
Foreign government bonds	282,654	-	-
Turkish government bonds	28,742	-	-
Mutual funds	102,542	-	-
Financial assets at fair value through profit or loss	2,194,533	-	-
Derivative instruments	-	891	-
Financial liabilities at fair value through profit or loss	-	891	-

31 December 2015:

	Level 1	Level 2	Level 3
Private sector bonds	1,193,594	-	-
Equity securities	309,034	-	-
Foreign government bonds	365,854	-	-
Turkish government bonds	25,839	-	-
Mutual funds	107,163	-	-
Financial assets at fair value through profit or loss	2,001,484	-	-
Derivative instruments	-	1,370	-
Financial liabilities at fair value through profit or loss	-	1,370	-

36. EVENTS AFTER THE REPORTING PERIOD

None.